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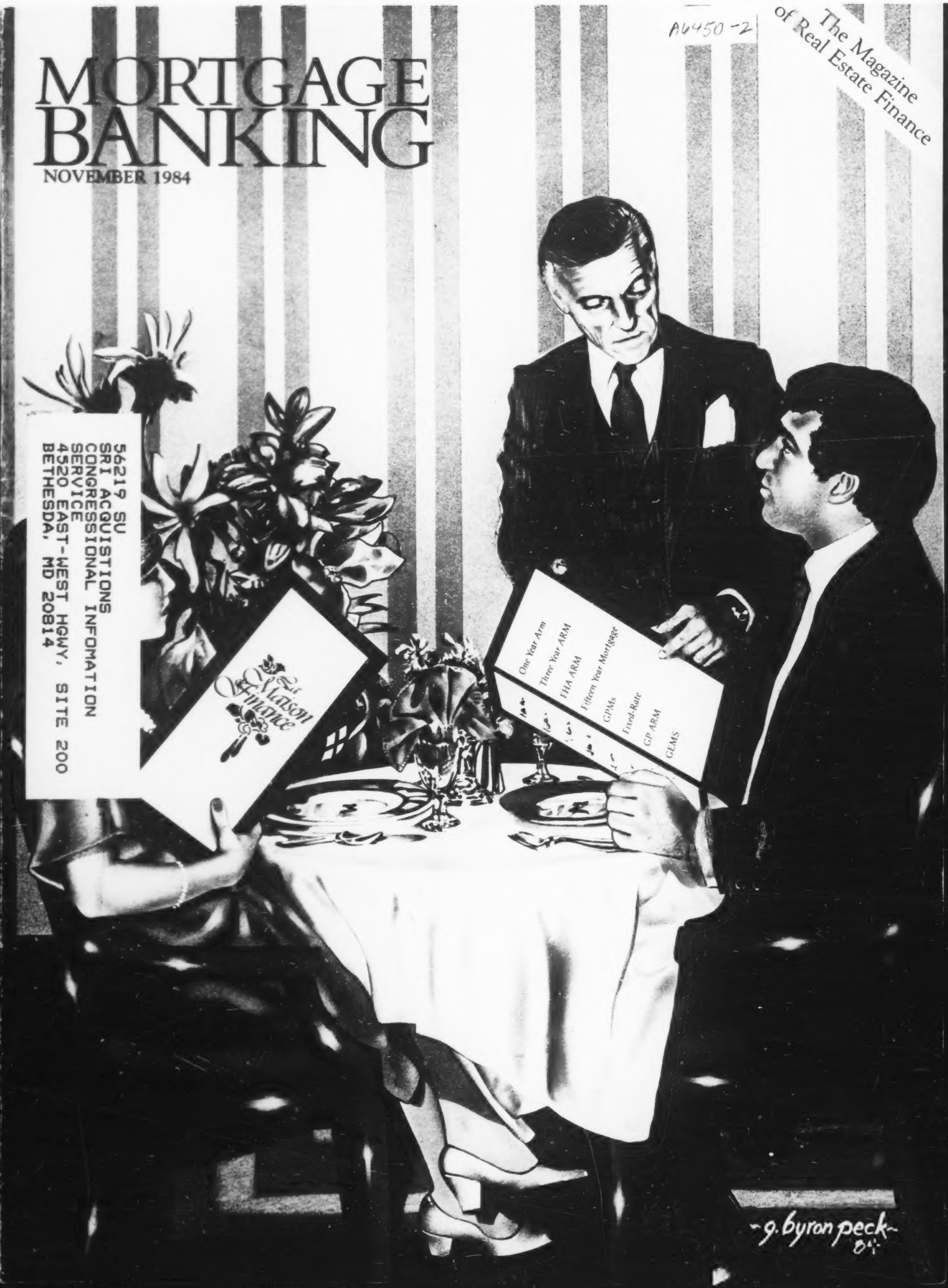
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84

Volume 45 No. 2
November 1984

8 Spiller

24 FHA ARM

68 Servicing

A Talk with Robert J. Spiller 8

Introduction to the FHA ARM
Thomas J. Bak 24

Targeting Marketing for Lender Success: Fannie Mae Survey
Winslow Hayward 32

15 Million Mortgages: The FHA Experience
Thomas J. Bak, Thomas N. Herzog, David A. Middaugh 41

Option Spread Strategies for Protection and Profit
David L. Caplan 59

Insurance Servicing Made Easy
David Duffy 68

Working Together (And Making It Work)
Gerard Sans 76

The Last Word (Communicating with the Appraiser) 87
Michael V. Salmon

About This Issue 5
People 93
Advertisers Index 102
Mortgage Market Trends 105

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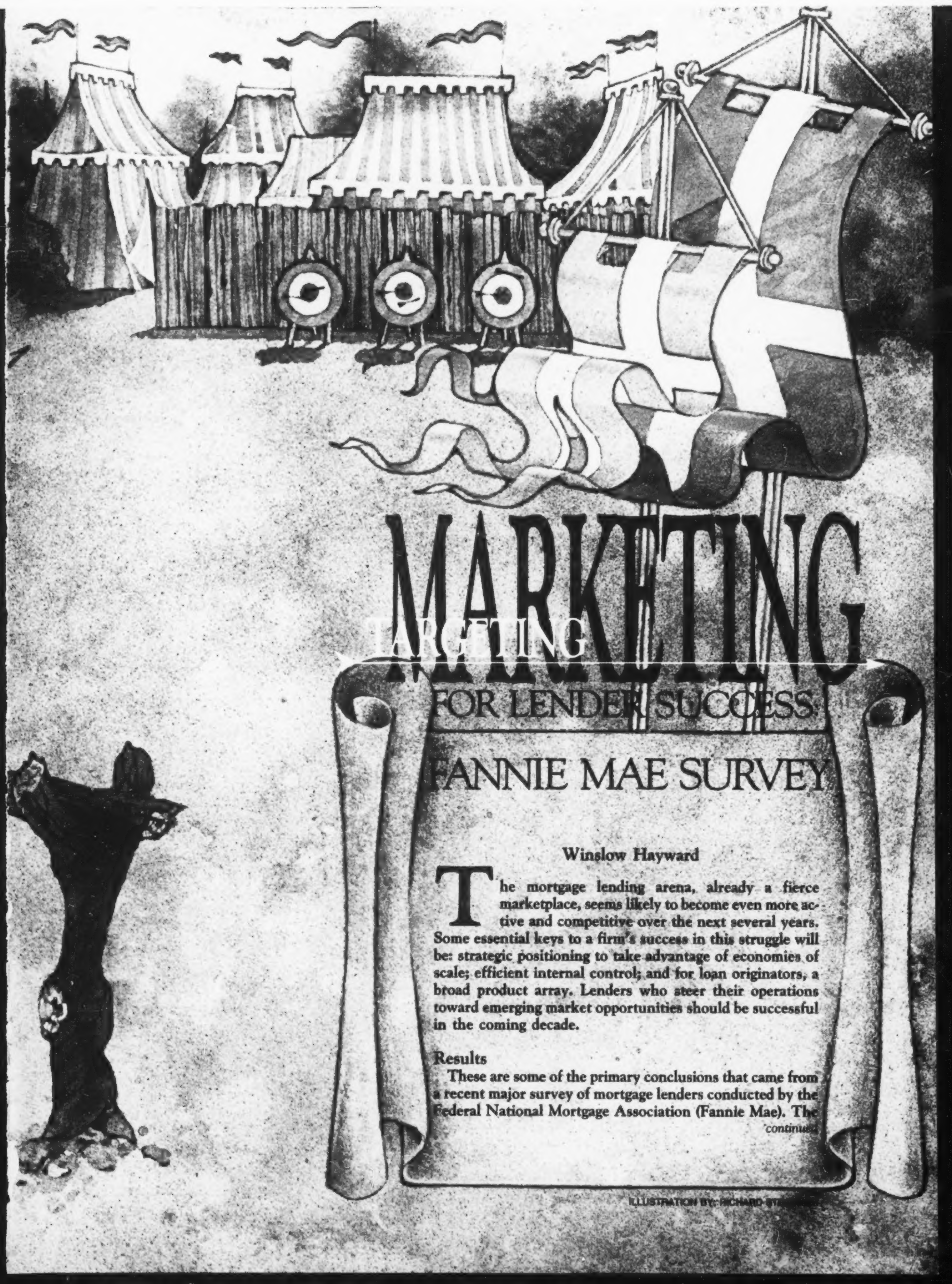

TARGETING MARKETING FOR LENDER SUCCESS

FANNIE MAE SURVEY

Winslow Hayward

The mortgage lending arena, already a fierce marketplace, seems likely to become even more active and competitive over the next several years. Some essential keys to a firm's success in this struggle will be: strategic positioning to take advantage of economies of scale; efficient internal control; and for loan originators, a broad product array. Lenders who steer their operations toward emerging market opportunities should be successful in the coming decade.

Results

These are some of the primary conclusions that came from a recent major survey of mortgage lenders conducted by the Federal National Mortgage Association (Fannie Mae). The

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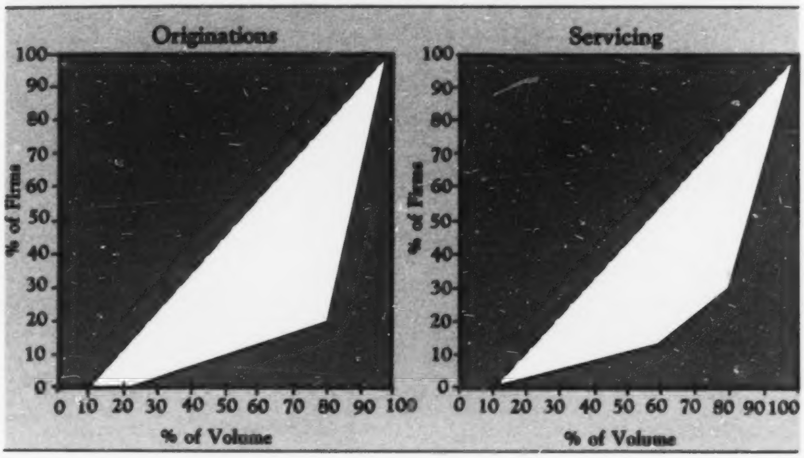
Chart 1

Concentration of Mortgage Originating and Servicing, 1983



purpose of the study was to collect information on a wide range of product and management areas from all segments of the mortgage finance industry.

The heads of residential lending departments at over 1,200 real estate finance lenders, including mortgage companies, thrifts, and commercial banks, were asked to participate. The result is an invaluable industry database that provides a better understanding of the mortgage bankers' marketplace.

In an age of complicated transactions, lenders can use these survey results to enhance their own operational decision-making and achieve a more efficient exchange of housing capital.

Fannie Mae's survey respondents echo some of the same feelings that many industry analysts had predicted when they said that mortgage lending is on its way to becoming more competitive, more concentrated, and more specialized. There have been more new entrants into the competition, as well as more "bidding wars" between lenders in search of "saleable products." The results of the survey offer additional insight into the nature and intensity of these current trends.

Mortgage loan origination and servicing are highly concentrated industries. The survey respondents estimated that approximately 55 percent of both functions is controlled by only 10 percent of the firms (see Chart 1). This concentration is especially pronounced in the area of servicing. Here, 10 percent of the firms control an estimated 65 percent of the businesses. While many small mortgage lenders have found profitable service niches, clearly the bulk of loan product is handled by the larger mortgage companies.

The fact that these market concentration figures (Chart 1) show that large participants in one function are not necessarily sizeable participants in another is especially intriguing. For example, nearly 40 percent of the mortgage company respondents did not service any loans in 1983. Yet some of these companies were high-volume lenders—40 percent of them originated more than $20 million in loans. Conversely, nearly 10 percent of those mortgage companies with servicing portfolios over $700 million originated less than $50 million in loans. That is a relatively small amount for a large firm in a year that broke volume records.

Specialization

Fannie Mae speculates that these firms are pursuing a strategy of functional specialization. They have decided to focus their operations on finding an efficient product or specializing in one activity, while (in extreme cases) eschewing others. By focusing resources and building volume in specific function, these firms are able to realize marketing, personnel, and data processing efficiencies. They are able to achieve maximum profit in the performance of that single function. Once they have completed their work, they can pass the product on to complementary firms, that, by internal efficiencies, can make attractive bids for the right to handle the loan in the next stage of its life cycle from borrower to investor.

What might come as a surprise to some is the importance of the role that portfolio investing plays for some mortgage companies.

About 10 percent of the firms said that of three functions—origination, servicing, and portfolio investing—investing was currently the most important; another overlapping 10 percent said that investing was the function likely to grow the most in importance in the near future. Most of these respondents were smaller firms—those originating and servicing less than $100 million in loans.

Glancing at the 1983 Mortgage Bankers Association (MBA) membership directory reveals that, indeed, a number of mortgage companies are holding sizeable quantities of loans in portfolio. Whether these loans actually are being held as a long-term investment or whether these firms simply are waiting for an opportune trading moment is unknown. But at a time when some thrifts are beginning to acquire the operational characteristics of mortgage bankers, some mortgage companies appear to be increasing their portfolio investments in mortgage loans—the traditional domain of thrifts.

Leading the response

Mortgage lenders recognize the growing competition and concentration in their industry, and many are actively responding to them. This is especially true of mortgage companies that are more aggressive than their thrift and bank counterparts. For example, while acknowledging the competition among originators, a number of these companies are taking action to secure their distribution system to ensure a steady product flow (see Chart 2). Nearly 60 percent have extensive correspondent relationships with loan processors, and 35 percent purchased whole loans from other lenders. More revealing of the strength of their convictions, however,

continued

Winslow Hayward is manager of strategic market developments for the Federal National Mortgage Association. He is responsible for market research and financial trends analysis. Previously, Hayward was a research analyst with The Futures Group in Washington, D.C.

Chart 2

Lender Affiliation in the Primary Market

	Percent of Firms		
	Mortgage Companies	Thrifts	Commercial Banks
Companies other than Fannie Mae companies processed more than 33 percent of loan applications	59	36	18
Purchased whole single-family loans last year	34	36	6
Are affiliated with a (mother) mortgage company	37	13	10
Are affiliated with a Realtor	21	8	2

is that nearly 40 percent are now affiliated formally with another mortgage company, and one in five companies has hooked up with a Realtor operation. The groups that team up with real estate agents do so in an apparent effort to capture the loan transaction even before the point of origination. They are making it clear that they are ready to compete with both the financial "supermarkets" and the electronic origination networks.

What does the future hold for the production side? According to Fannie Mae's respondents, there will be increased competition, a need for more products, and a trend toward more automation. Nearly 60 percent of the lenders see the market becoming more concentrated and originating loans as the key strategic function for their firms. To compete, an overwhelming 80 percent see a need both to "offer a wide product array to a wide array of markets" and to "automate product flow from application to marketing." Certainly, these two strategic thrusts are interrelated. In fact, the need to manage diverse products has been one of the major justifications for lender investments in integrated data processing systems. It seems that the need to cut costs, increase efficiencies, and make immediate marketing decisions with a mixed inventory will only cause data base investments to rise in the years to come.

Marketing single-family loans

While conditions for lenders are becoming tighter on the production side, the range of choices available for marketing loans seems to be guaranteed to expand. The survey data reveal that more firms than ever expect to be active in the secondary market both as buyers and sellers. An investigation of transaction patterns suggests that many firms—and especially mortgage companies—are stationing themselves to exploit "unique" market positions. This jockeying seems likely to continue as economies of exchange encourage strategic positioning.

In terms of sheer numbers of players, activity in the secondary market seems likely to increase. This is especially true for depository institutions that to date have been surprisingly inactive in this market. Despite the publicity and attention given to the techniques of secondary trading, one-half of the thrifts and nearly 60 percent of the banks did not sell any of their 1983 current single-family product into the secondary market, and only 20 percent were active enough to move more than one-third of their new product. Levels of sales typically varied with firm size, with the smaller companies being the least busy.

However, many of those same depositories expect that situation to change in the near future. More than half of the thrifts and one-third of the banks that are currently inactive expect to be trading loans within two years. The motivation they cite as being most influential is the opportunities the market offers for "income generation" and "risk management."

The number of buyers in the secondary market should increase as well. The emergence of new private conduits, such as Sears Mortgage Securities Corporation and those within investment banking houses, has been heavily publicized. What is perhaps less well known is the number of primary lenders that are currently, or expect to be purchasers of single-family loans in the future. As mentioned, about one in three mortgage companies currently purchases loans. An equal percentage of thrifts are buyers as well.

The number of lenders, as well as the intensity of purchasing, seems likely to increase in the future. Nearly 40 percent of the respondents said that purchasing loans would become an increasingly important way of meeting their production goals over the near term. Sellers have few problems finding suitable buyers and profitable deals.

Those lenders who are active buyers gave several motivations for being in the secondary market. "To secure servicing" and "prices were better in other markets" were two frequent responses, especially from larger firms. Each response has interesting implications. The first suggests a future battle for servicing among industry giants. Smaller firms that cannot meet the processing efficiencies of the major players will be sellers of "servicing-released" packages. The second response implies that, while computerization of the industry may "homogenize" markets in the future (due to the rapid dissemination of information), several strong geographic

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Chart 3

Pattern of Mortgage Company Single-Family Loan Sales

Percent of Mortgage Companies Selling to the Following

Seller's Servicing Portfolio	Mortgage Company/ Depository	Federal Agency	Other
None	72	25	40
$1-100 million	55	35	35
$101-700 million	79	82	85
$701+million	83	90	85

differences still exist today. This helps explain the common use of correspondent relationships to expand market presence.

The survey also revealed some strong transaction patterns among lenders. Perhaps most striking is the immediate contrast that can be drawn between mortgage companies (and, to a lesser degree, thrifts) and the commercial banks. Mortgage operations at most banks (separate from any mortgage subsidiary) typically consist of a retail branch and a portfolio division. As mentioned, 33 percent of banks sell loans while a mere 6 percent purchase them.

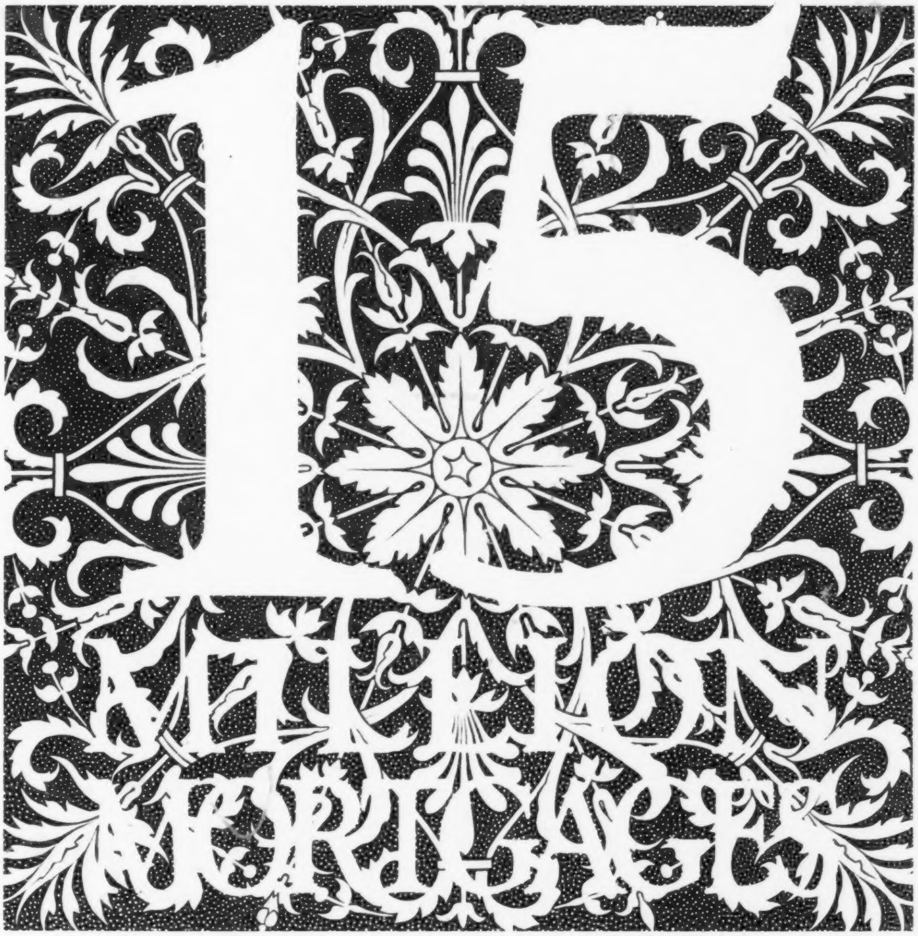
The number of firms that mortgage companies sell loans to seems to shift with the seller's size. As illustrated in Chart 3, bigger lenders not only sell to more buyers, they sell to different buyers as well. Brokers and small firms with portfolios under $100 million very often sell to fellow mortgage companies or depositories. A relative minority sell to the federally-sponsored conduits or other private and public buyers. By contrast, the bigger firms are especially oriented toward the federally-sponsored group, though clearly they do not neglect the other categories of buyers. At least 83 percent sell to multiple types of partners.

These data suggest that, at least as far as sales to Fannie Mae, Freddie Mac, and Ginnie Mae are concerned, a "chain pattern" method of conducting business among primary institutions exists. Smaller firms and brokers sell to large lender intermediaries who in turn offer bulk packages to FNMA, FHLMC, and GNMA. Confirmation of this view comes from the fact that the most frequent selling partners of large mortgage companies are the small ones.

In marketing terms, the smaller firms are acting as retail outlets while the larger firms are acting as wholesale middlemen for investors. Each is taking advantage of the economies of specialization. The retailers exploit their position as low-cost originators, and the wholesalers reap the price concessions the federally-sponsored corporations grant through large-scale negotiated transactions. The results for Fannie Mae at least have been clear. The vast majority of the loan purchases—at times as high as 90 percent—have been negotiated transactions. If these patterns continue, it is obvious much of Fannie Mae's future transactions will be made there as well.

A baseline to measure the future

This survey was Fannie Mae's first attempt to gather operating data from a broad sample of lenders. The data have proved enlightening in three ways. They unveiled certain unexpected trends; they quantified these unmeasured trends; and they demonstrated patterns among what were previously viewed as isolated events. The data served to increase significantly the understanding of this complex marketplace. ☐



THE FHA EXPERIENCE

Thomas J. Bak, Thomas N. Herzog, David A. Middaugh

Since its inception 50 years ago, the Federal Housing Administration (FHA) has insured almost 15 million single-family home mortgages against the risk of foreclosure. Our recent experience with such mortgages shows that the risk inherent in mortgage insurance is primarily an economic (or fundamental) risk and that the experience of individual mortgages should not be considered to be randomly independent. (This topic is also discussed in articles by Foster and Herzog [*Mortgage Banking*, November 1981 and March 1982] in connection with mortgage insurance.) Our experience also shows that the foreclosure probabilities depend on the mortgage amount and the initial downpayment as well as on the interaction between these two factors. In addition, comparing the experience on FHA level-payment mortgages to that of FHA graduated payment mortgages (GPMs) is useful.

GPMs are mortgages whose monthly payments to principal and interest increase annually by a fixed percentage during the first five or ten years of the mortgage. Such mortgages amortize over a 30-year term and usually have some negative amortization.

Experience on 30-year term level-payment mortgages

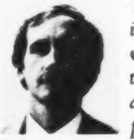
From Tables 1 and 2, we note that 30-year term FHA mortgages written in 1981 have done quite poorly. Specifically, 7.6 percent have already resulted in claims with 4.6 percent occurring during their first two policy years. In addition, from Table 3 we see that a substantial portion (15.7 percent) of such

continued

mortgages have already prepaid their loans. These results should not be surprising because both mortgage interest rates and the rate of appreciation in home values have dropped since 1981.

On the other hand, 30-year term FHA mortgages written in 1977 and 1978 had relatively low claim rates due primarily to the rising property values and rising interest rates of the late 1970s. In addition, the prepayment rates for 1979 and 1980 mortgages are quite low, reflecting the low level of housing sales for 1981 and 1982 caused by the very high mortgage interest rates of these years.

This recent experience shows that the risk of mortgage insurance is highly dependent on changes in house prices and mortgage interest rates. Moreover, unlike other types of insurance (e.g., individual life insurance), mortgage insurance does not involve individual events that may be considered (stochastically) independent. Hence, the law of large numbers cannot be applied to mortgage insurance to predict future underwriting experience accurately.



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David Middaugh is a financial analyst in HUD's Actuarial Branch, Office of Financial Management, with responsibilities that include FHA-insured single-family mortgages. He previously worked as a financial management assistant to the Director of the Office of Financial Management.

Table 1

Claims for the First Two Policy Years

Endorsement Year	Number of Mortgages Insured (1)	Number of Claims Observed (2)	Claims Rate =(2)÷(1) (3)
1976	206759	2891	1.4%
1977	238558	2098	.9
1978	235905	2029	.9
1979	250806	2839	1.1
1980	204834	3851	1.9
1981	124721	5793	4.6
1982	115742	3334	2.9

Table 2

Claims for all Policy Years

Endorsement Year	Number of Mortgages Insured (1)	Number of Claims Observed (2)	Claims Rate =(2)÷(1) (3)
1976	206759	6512	3.1%
1977	238558	5373	2.3
1978	235905	6466	2.7
1979	250806	9252	3.7
1980	204834	10443	5.1
1981	124721	9451	7.6
1982	115742	3334	2.9

Table 3

Prepayments for all Policy Years

Endorsement Year	Number of Mortgages Insured (1)	Number of Prepayments Observed (2)	Prepymt. Rate =(2)÷(1) (3)
1976	206759	53973	26.1%
1977	238558	37724	15.8
1978	235905	17476	7.4
1979	250806	7664	3.1
1980	204834	7699	3.8
1981	124721	15973	12.8
1982	115742	14704	12.7

Loan-to-value ratios, mortgage amounts, and mortgage insurance

Tables 4-7[1] illustrate the effect of the mortgage amount and the loan-to-value ratio (which may be considered to be the portion of the home purchase price that is financed) on the probability of an FHA insurance claim for mortgages endorsed in 1978 and 1981. We have considered these two endorsement years so that we would have one year, 1981, in which our experience was poor and another year, 1978, in which it was better than average. Generally, as the loan-to-value ratio goes up so does the probability of a claim. In addition, the probability of a claim goes up as the origi-

continued

Table 4

Claim Rates for Mortgages Endorsed in 1978

Mortgage Amount (in dollars)

Loan-to-Value Ratio	Under 15,000	15,001-25,000	25,001-35,000	35,001-50,000	Over 50,000	Total
Under 80.0%	3.32%	1.21%	.51%	.34%	.80%	.74%
80.0-89.9	5.63	2.81	1.49	.87	1.15	1.44
90.0-94.9	6.47	4.37	2.31	1.32	1.09	2.14
95.0-96.9	7.22	4.76	3.04	1.94	1.52	2.90
97.0-98.9	12.50	7.18	3.53	2.04	2.17	4.41
Totals	7.39	4.62	2.56	1.50	1.34	2.52

Table 5

Number of Mortgages Endorsed in 1978

Mortgage Amount (in dollars)

Loan-to-Value Ratio	Under 15,000	15,001-25,000	25,001-35,000	35,001-50,000	Over 50,000	Total
Under 80.0%	422	2237	3516	3485	994	10654
80.0-89.9	302	3128	7698	9229	2426	22783
90.0-94.9	603	7132	17565	19342	5500	50142
95.0-96.9	1122	13624	28507	25053	7283	75589
97.0-98.9	584	5087	6013	4561	1153	17398
Totals	3033	31208	63299	61670	17356	176566

Table 6

Claim Rates for Mortgages Endorsed in 1981

Mortgage Amount (in dollars)

Loan-to-Value Ratio	15,000-25,000	25,001-35,000	35,001-50,000	50,001-60,000	Over Total	
Under 80.0%	3.07%	2.30%	2.29%	3.90%	3.47%	2.89%
80.0-89.9	10.49	8.53	7.03	8.20	5.40	7.51
90.0-94.9	11.42	9.16	6.21	5.22	4.59	6.52
95.0-96.9	13.87	14.85	11.34	10.45	8.74	11.59
97.0-98.9	17.57	25.33	19.40	14.71	6.96	19.31
Totals	10.20	10.00	7.46	7.24	5.74	7.79

Table 7

Number of Mortgages Endorsed in 1981

Mortgage Amount (in dollars)

Loan-to-value Ratio	15,001-25,000	25,001-35,000	35,001-50,000	50,001-60,000	Over 60,000	Total
Under 80.0%	2088	3135	5666	3205	2851	16945
80.0-89.9	2221	4258	8772	5331	4924	25506
90.0-94.9	1944	4390	8982	5228	6056	26600
95.0-96.9	2091	5146	9622	4419	4968	26246
97.0-98.9	569	600	567	272	115	2123
Totals	8913	17529	33609	18455	18914	97420

continued

Table 8

Claim Termination Rates for GPM and Level-Payment Mortgages Through June 1984

Endorsement Year	Number of GPM Mortgages Insured	Number of GPM Claims	GPM Claim Rate	30-Year Term Level-Payment Claim Rate*
1978	51,677	742	1.4%	2.7%
1979	127,426	2,294	1.8	3.7
1980	88,705	2,258	2.6	5.1
1981	42,116	1,406	3.3	7.6
1982	30,389	448	1.5	2.9

**From last column of Table 2.*

Table 9

Quarterly Claims for 1978 Endorsements

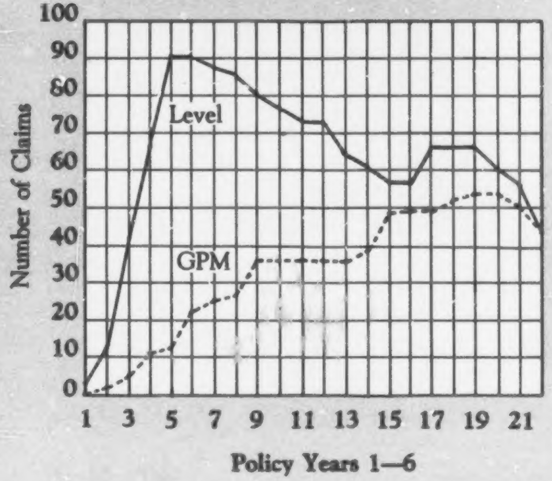
		Level-Payment Mortgages			GPM Mortgages	
Quarter	Months	Number of Claims	Smoothed Number of Claims	Adjusted* Number of Claims	Number of Claims	Smoothed Number of Claims
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1-3	11	11	2	0	0
2	4-6	64	64	14	1	1
3	7-9	191	191	41	5	5
4	10-12	303	303	66	12	10
5	13-15	418	298	87	10	12
6	16-18	398	398	87	22	22
7	19-21	390	390	85	26	25
8	22-24	366	380	83	25	26
9	25-27	380	366	80	36	36
10	28-30	335	354	77	36	36
11	31-33	354	335	73	40	36
12	34-36	331	331	72	36	36
13	37-39	275	291	60	39	39
14	40-42	291	275	58	49	49
15	43-45	266	266	58	49	49
16	46-48	260	266	58	49	49
17	49-51	306	306	67	48	49
18	52-54	307	306	67	51	51
19	55-57	306	306	67	58	53
20	58-60	276	276	60	53	53
21	61-63	252	252	55	50	50
22	64-66	294	194	42	43	43

**The adjusted numbers of claims were obtained by multiplying the smoothed numbers of claims by the ratio of* GPMs *to 30-year term level-payment loans endorsed in 1978 (i.e., 51,677÷235,905) and truncating the fractional part of the result.*

continued

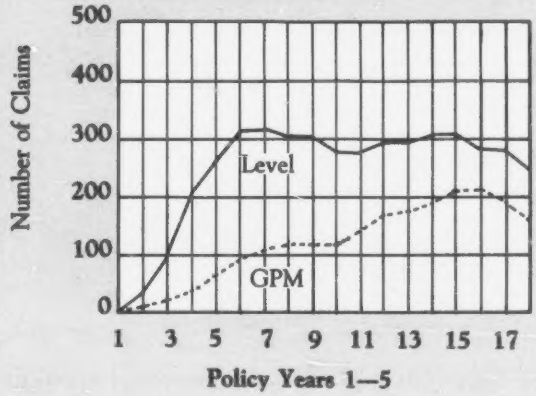
Graph 1

FHA Claims 1978 Endorsements



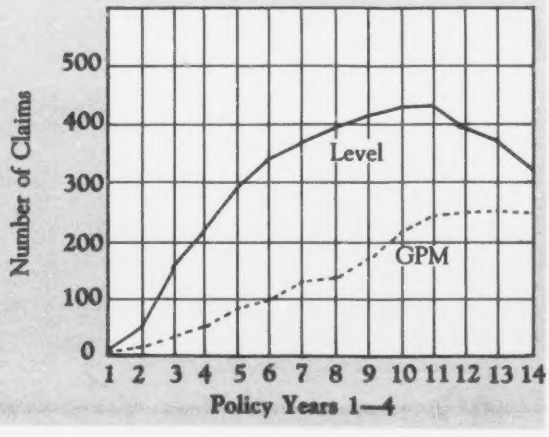
Graph 2

FHA Claims 1979 Endorsements



Graph 3

FHA Claims 1980 Endorsements



nal (or face) amount of the mortgage goes down.

Table 4 shows the claim rates observed through June 1984 on level-payment mortgages insured during calendar year 1978. Table 5 shows the number of mortgages insured in each of the cells of Table 4. Tables 6 and 7 show the claim rates and number of mortgages insured for level-payment mortgages insured during calendar year 1981. The reader will note the overall increase in the claim rates from 1978 to 1981.

GPMs vs. level-payment mortgages

We have also compared the claims experience of FHA graduated payment mortgages to level payment mortgages written for a term of 30 years. We have restricted our attention to those mortgages written in calendar years 1978 through 1982, because 1978 was the first year in which there was a substantial number of GPMs written. In Table 8, we compare the cumulative claims experience of GPM and level-payment mortgages for each of the endorsement years 1978-1982. We note that for the experience observed through June 1984, the claim rate of FHA GPMs is about half that of the corresponding FHA level-payment mortgages.

We have also compared the claim experience of the GPM and level payment mortgages insured during each of the years 1978-1980. The data have been summarized in Tables 9-11 and Graphs 1-3. Specifically, the data have been partitioned into three-month intervals or "quarters." This provides an initial smoothing of the data.

The data have been smoothed further by the application of "running medians of three" to the quarterly data.[2] For example, let us look at the GPM data of Table 9. For GPM mortgages insured in 1978, there were zero claims observed during the first three policy months; one during policy months four-six; and five during seven-nine. Because the median of zero, one, and five is one, the smoothed value of the second quarter (i.e., months four-six) is one.

continued

Table 10

Quarterly Claims for 1979 Endorsements

		Level-Payment Mortgages			GPM Mortgages	
Quarter	Months	Number of Claims	Smoothed Number of Claims	Adjusted* Number of Claims	Number of Claims	Smoothed Number of Claims
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1-3	11	11	5	1	1
2	4-6	71	71	35	5	5
3	7-9	189	189	94	24	24
4	10-12	411	411	205	40	40
5	13-15	516	516	258	65	65
6	16-18	612	612	306	95	95
7	19-21	639	612	306	103	103
8	22-24	605	605	302	125	107
9	25-27	600	600	300	107	110
10	28-30	547	559	279	110	110
11	31-33	559	559	279	142	142
12	34-36	593	593	296	162	162
13	37-39	598	598	299	170	170
14	40-42	623	611	305	188	188
15	43-45	611	611	305	214	207
16	46-48	572	572	286	207	207
17	49-51	566	566	283	197	197
18	52-54	457	457	228	166	166

**The adjusted numbers of claims were obtained by multiplying the smoothed numbers of claims by the ratio of GPMs to 30-year term level-payment loans endorsed in 1979 (i.e., 127,426÷250,806) and truncating the fractional part of the result.*

In Graph 1, we have plotted the (level payment) data of column five of Table 9 versus the (GPM) data of column seven. The data of column five are equal to approximately 20 percent of the corresponding value of column four. Because there were almost five times as many FHA 30-year term level-payment mortgages written in 1978 as GPMs, the use of the adjusted data of column five facilitates the desired comparison. Similarly, in Graphs 2 and 3, we have plotted the adjusted data of column five of Tables 10 and 11, respectively.

From each of Graphs 1-3, the reader can see that during the first few policy years the difference in the claim rates between GPMs and level-payment mortgages is high but decreases or disappears entirely during the later policy years for which the data are shown. This is probably explained by the slight increase in equity of the average level-payment mortgagor and the relative decrease in equity of the average GPM mortgagor. The amount of negative amortization in GPM loans typically peaks in the fourth or fifth policy year. Because virtually all of the GPMs endorsed prior to 1981 required that the maximum loan-to-value ratio (including the effect of negative amortization) be no more than 97 percent, the minimum downpayment required on a GPM is higher than that required on a level-payment mortgage for a home having the same purchase price.

Legislation permitting the GPM loan-to-value ratio to increase to as much as 113 percent was enacted in December 1979. There were only 103 such loans insured during 1980. So, the impact of such loans on our analysis is negligible. There were 2,916, 4,256 and 1,869 such loans in 1981, 1982, and 1983, respectively. However, we need more experience on these cases to do any meaningful analysis.

Finally, in Table 12 is the prepayment experience of GPMs. In particular, note the high prepayment rates for GPMs endorsed in 1981 and 1982.

Tables 13-16 are the GPM versions of Tables 4-7. It is interesting to compare both sets of tables. For example, comparing Table 5 to Table 14, observe that 97,530, or over 50 percent, of the level-payment mortgages endorsed in 1978 were for amounts of $35,000 or less; whereas only 7,331, or 19 percent, of the 1978 GPM mortgages were for $35,000 or less. Thus, the 1978 GPMs had higher mortgage amounts and lower loan-to-value ratios.

The data of Table 8 seem to indicate that level-payment mortgages are inherently riskier than GPMs. GPMs are inherently riskier than level-payment mortgages, "all else being equal."

Use the claim rates of 1978 level-payment mortgages given in Table 4 to produce an estimate of the number of 1978 GPM claims that would have already occurred if the GPM claim rates (for each mortgage amount and loan-to-value ratio) were identical to those on level-payment mortgages. The claim rate of each cell of Table 4 was multiplied by the value of the corresponding cell of Table 14—i.e., the number of 1978 GPM mortgages at the corresponding mortgage amount and loan-to-value ratio—and then the results were added together. This produced an estimate of 564 claims, which is less than the 586 actual GPM claims observed thus far on mortgages for which both the mortgage amount and loan-to-value ratio were available. This result is consistent with the results[3] of private mortgage insurers who do not require higher down payments on GPMs.

continued

Table 11

Quarterly Claims for 1980 Endorsements

		Level-Payment Mortgages			GPM Mortgages	
Quarter	Months	Number of Claims	Smoothed Number of Claims	Adjusted* Number of Claims	Number of Claims	Smoothed Number of Claims
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1-3	17	17	7	1	1
2	4-6	107	107	46	12	12
3	7-9	341	341	147	29	29
4	10-12	509	509	220	54	54
5	13-15	671	671	290	90	90
6	16-18	793	792	342	97	97
7	19-21	850	850	368	136	136
8	22-24	904	904	391	139	139
9	25-27	949	949	410	178	178
10	28-30	999	990	428	217	217
11	31-33	990	990	428	248	248
12	34-36	931	931	403	249	249
13	37-39	855	855	370	262	249
14	40-42	730	730	316	249	249

**The adjusted numbers of claims were obtained by multiplying the smoothed numbers of claims by the ratio of GPMs to 30-year term level-payment loans endorsed in 1980 (i.e., 88,705÷204,834) and truncating the fractional part of the result.*

Table 12

Prepayment Experience for GPM and Level-Payment Mortgages Through June 1984

Endorsement Year	Number of GPM Mortgages Insured	Number of GPM Prepayments	GPM Prepayment Rate	30-Year-Term Level-Payment Prepayment Rate*
1978	51,677	2,956	5.7%	7.4%
1979	127,426	3,267	2.6	3.1
1980	88,705	3,398	3.8	3.8
1981	42,116	10,865	25.8	12.8
1982	30,389	5,694	18.7	12.7

**From last column of Table 3.*

---

[1] *Tables 4-7 as well as Tables 13-16 are based on those mortgages for which both the loan-to-value ratio and the mortgage amount were available in our database. Because not all of the information was available for all mortgages, the overall totals of Tables 4-7 and 13-16 differ from those of Tables 1-3 and 8.*

[2] *This technique is discussed in Chapter 7 of Tukey (1977).*

[3] *According to the* **Washington Post** *of August 4, 1984, "MGIC, the largest mortgage insurance company in the United States, reports that on 30,000 graduated payment mortgages the default rate is 30 percent higher than on fixed-rate mortgages."*

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continued

Table 13
Claims Rates for GPM Mortgages Endorsed in 1978

Mortgage Amount (in Dollars)

Loan-to-Value Ratio	Under 15,000	15,001-25,000	25,001-35,000	35,001-50,000	Over 50,000	Total
Under 80.0%	.00%	2.00%	.72%	.45%	.23%	.45%
80.0-89.9	.00	.80	1.41	1.02	.95	1.04
90.0-94.9	.00	2.34	2.16	1.65	1.23	1.62
95.0-96.9	50.00	3.11	2.96	1.88	2.07	2.27
97.0-98.9	.00	.00	3.19	1.08	1.21	1.60
Totals	12.50	2.19	2.13	1.48	1.16	1.51

Table 14
Number of GPM Mortgages Endorsed in 1978

Mortgage Amount (in Dollars)

Loan-to-Value Ratio	Under 15,000	15,001-25,000	25,001-35,000	35,001-50,000	Over 50,000	Total
Under 80.0%	4	50	419	1333	863	2669
80.0-89.9	3	125	925	3332	2843	7228
90.0-94.9	5	427	3847	11976	7332	23587
95.0-96.9	4	193	1115	2394	966	4672
97.0-98.9	0	26	188	370	165	749
Totals	16	821	6494	19405	12169	38905

Table 15
Claims Rates for GPM Mortgages Endorsed in 1981

Mortgage Amount (in Dollars)

Loan-to-Value Ratio	15,000 25,000	25,001-35,000	35,001-50,000	50,001-60,000	Over 60,000	Total
UNDER 80.0%	3.57%	1.23%	.92%	1.05%	.61%	.92%
80.0-89.9	5.10	6.12	4.06	3.04	2.68	3.38
90.0-94.9	26.92	12.37	7.06	6.08	5.89	6.63
95.0-96.9	66.67	23.08	10.66	7.42	4.97	7.90
97.0-98.9	.00	.00	.00	6.90	8.00	4.65
Totals	7.00	5.54	4.25	3.51	2.92	3.66

Table 16
Number of GPM Mortgages Endorsed in 1981

Mortgage Amount (in Dollars)

Loan-to-value Ratio	15,001 25,000	25,001-35,000	35,001-50,000	50,001-60,000	Over 60,000	Total
Under 80.0%	112	488	2062	1523	2128	6313
80.0-89.9	157	1112	6325	6084	7914	21592
90.0-94.9	26	186	1728	1693	1903	5536
95.0-96.9	3	13	516	539	523	1594
97.0-98.9	2	5	25	29	25	86
Totals	300	1804	10656	9868	12493	35121

□

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

October 17, 1984

After rising at an average 1.9 million units in the first-half of the year, the burden of high interest rates caused housing starts to fall precipitously in July and August 1984 to an average 1.6 million units. By August, the ratio of houses for sale to houses sold reached a two-year high. It was this marked deterioration in housing activity that slowed the forward momentum of the recovery.

Indeed, the estimated third quarter deceleration in real GNP growth to 3.6 percent from the rapid first-half pace of 8.5 percent, has produced a consensus that the long-awaited slowdown in economic activity has finally arrived. There is less consensus, however, regarding the impact this slowdown will have on interest rates. Some analysts interpret the third quarter performance as a sign that demand pressures are easing sufficiently to produce a substantial drop in interest rates. Others view the third quarter developments as an indication that the economy has indeed downshifted to a period of slower growth, but that the foundation of the recovery remains strong enough to rule out a protracted contraction in demand. To be sure, given that the federal government will have to raise $100 billion over the next six months, only a pronounced decline in economic activity will curtail private sector loan demand sufficiently to offset federal credit demands, and thereby bring about a sharp drop in interest rates. However, there is little reason to believe that such fundamental weakness exists in the economy.

The softening in retail sales, the fall-off in durable-goods orders and the easing of industrial production since June 1984, reflect an economy in transition from overly-fast growth to more moderate growth. The drop in nondefense capital goods orders is especially significant because capital expenditures have been the driving force behind the recovery. However, the softening in durable goods orders this summer does not imply that a substantial decline in capital spending is imminent. Those orders account for only domestically-produced capital goods, and imports of machinery and transportation equipment have nearly doubled since 1982. Thus, while the drop in durable goods orders does indicate a moderate trend in capital spending, it overstates the potential decline in business investment.

In any event, the robust 1.1 percent increase in business equipment production in August 1984, suggests that the demand for domestically-produced capital goods is hardly anemic.

At the same time, the fall in durable goods orders is likely to be a temporary lull. The potential of an auto workers'strike may have fostered a "wait and see" attitude among business managers, leading to more cautious investment decisions. Now that the potential for a strike is diminished, previously postponed investment plans may be implemented in the fourth quarter. At the same time, even though capital spending in this recovery has risen at twice the postwar average, the incentive for additional investment is still there, for the estimated capital-output ratio for the economy is below last year levels. Further, backlogs for nondefense capital goods increased during the summer, maintaining a high ratio of backlogs to shipments. Thus, business investment will continue to fuel the recovery, only at a slower rate.

Similarly, while retail sales fell in August 1984 for the second consecutive month, sales were still 8 percent above 1983 levels. Further, there is preliminary evidence that a rebound in sales is underway, as retail sales rose 1.6 percent in September 1984.

Indeed, the real income growth needed to support sales remains strong. The combination of strong employment growth and low inflation has greatly boosted consumer purchasing power. Real disposable personal income is expected to grow by 7 percent this year, double the 1983 increase. In addition, high interest earnings will continue to supplement consumer income, helping to keep the ratio of consumer debt to income low.

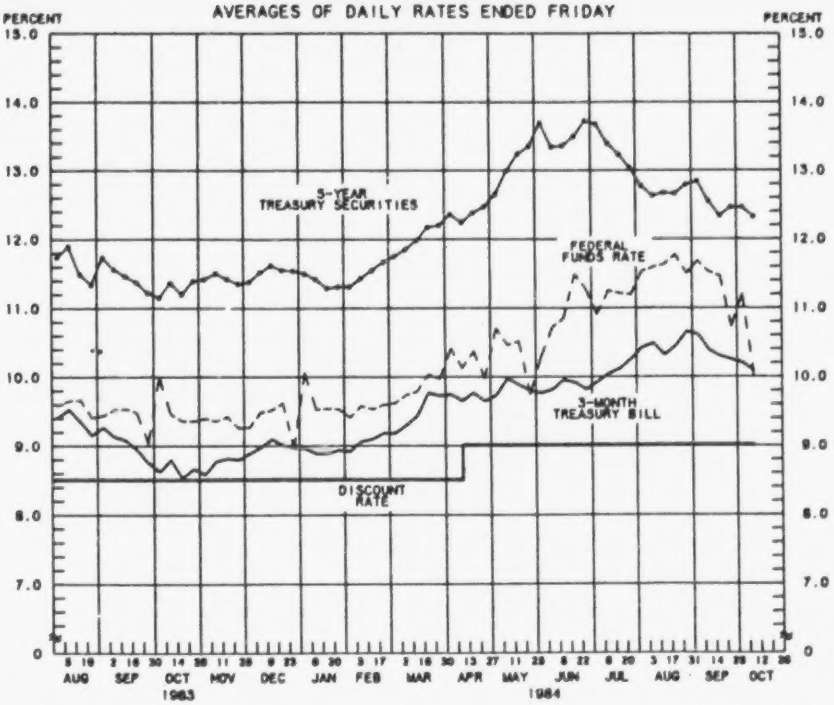
In short, while there was a significant slowdown in economic activity in the third quarter 1984, it was just that—a slowdown. Demand remains buoyant, which will mantain a lofty floor under both business and consumer installment loan demand. A similar interpretation of the economic tea leaves by the Federal Reserve Board implies that a significant easing of money growth is not on the horizon. As a result, the decline in interest rates in the third quarter is likely to be reversed when business investment and consumer spending rebounds in the fourth quarter.

This implies that housing activity will remain sluggish. With conventional fixed-rate mortgages staying near 14 percent, housing starts are likely to remain near the August rate of 1.5 million units at least through early 1985. In this environment, mortgage origination activity will slowly deteriorate until the next recession and/or reduced federal borrowing drives interests rates down.

Edison R. Zayas
Economist

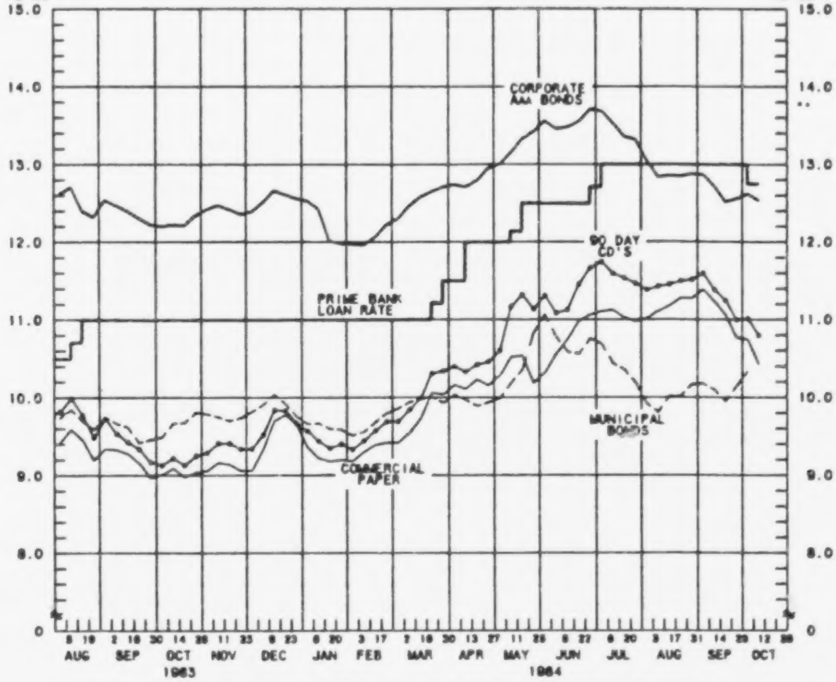
SELECTED INTEREST RATES

AVERAGES OF DAILY RATES ENDED FRIDAY



YIELDS ON SELECTED SECURITIES

AVERAGES OF DAILY RATES ENDED FRIDAY



LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING: OCTOBER 12, 1984

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—NOVEMBER 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	128	88	40	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	137	99	38	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	171	121	50	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	180	126	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	163	110	53	1,754	1,108	646
AUG	141	90	51	1,506	943	563	146	102	44	1,539	1,042	497
SEPp	125	78	47	1,424	948	476	148	100	48	1,676	1,123	553
9 months												
1984	1,276	818	458				1,366	942	424			
1983	1,219	792	426				1,300	919	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
JUN	$147,929	$65,797	$22,124	$60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,558	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,985	74,089	30,962	74,934
AUG	182,714	71,727	35,034	75,953
SEPp	n.a.	n.a.	n.a.	n.a.

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	57	340	6.5
JUL	267	53	342	6.7
AUG	275	49	348	7.3
SEPp	n.a.	n.a.	n.a.	n.a.
9 months				
1984	2,036*	452		
1983	1,874	435		
1982	1,296	259		
1981	1,724	319		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1983																
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	22	88	44	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	22	33	89	41	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	25	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	24	67	35	183	224	734	398
SEPp	17	18	58	34	176	171	688	389	19	23	69	36	186	235	824	431
9 months																
1984	141	159	623	356					145	189	694	343				
1983	127	143	653	298					127	168	713	294				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	47
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,133	678	455	146	102	44
AUG	1,129	673	456	150	107	43
SEPp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
9 months						
1984				1,062	729	339
1983				976	716	260
1982				714	522	211
1981				945	703	243

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional							Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.			10-yr.	26-wk.			
1983																
JUN	12.96%	13.37%	13.38%	12.36%	12.67%	14.00%		12.480%	13.163%	12.03%	11.87%	10.85%	8.89%	9.00%	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	n.a.	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.52	12.92	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78

*signifies an eight-month total

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
JAN	$15,616	$4,710	$ 4,755	$ 5,371	$ 780	$10,695	$3,880	$ 3,621	$3,146	$ 54	$1,532	$650	$ 529	$ 312	$ 45	$3,389	$180	$ 605	$1,913	$ 757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,539	5,430	14,485	7,629	1,995	20,505	4,620	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JULp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
FEB	$ 69,199	$18,840	$25,677	$14,965	$ 9,717	$16,887	$6,460	$ 7,271	$2,086	$1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,240	11,690	54,698	19,122	13,730	24,619	3,780	14,559	4,736	1,544
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SEP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
FEB	138	96	42	62	$3,607	17	$ 795	15	$ 961	30	$1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12	775	n.a.	n.a.

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
JAN	$2,006	$2,045	$15,464	$1,082	$2,004	$2,059	$1,479	$1,641	$4,593	$2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,564	2,385	2,373
SEP	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,854p	1,921

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
JAN	$100	$ 50	$20	$30	$ 60	$ 280	$120	$ 30	$130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	350p	110p	10p	230p	350p	750p	110p	180p	460p
JUL	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SEP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-Res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]
1982													
JUL	$2,070	$1,700	$ 80	$ 260	$ 2,230	$ 1,950	$ 610	$ 370	$ 970	$ 50	$ 50	$ 0	$ 230
AUG	2,160	1,780	120	290	2,450	2,130	720	420	990	70	10	60	250
SEP	2,360	2,070	70	170	2,280	2,090	700	490	900	50	10	40	140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUNp	4,600	3,810	20	1,020	5,430	4,620	1,010	680	2,930	20	0	20	790
Year to Date[5]													
1984					$30,410	$25,350	$ 6,020	$4,190	$15,140	$1,830	$ 50	$1,780	$3,220
1983					33,860	28,390	11,610	6,850	9,930	2,990	680	2,310	2,480
1982					11,480	9,000	2,830	1,620	4,550	740	340	400	1,740
1981					17,420	13,160	4,820	3,520	4,820	840	590	250	3,420

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non.-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
JUL	$ 2,700	$ 2,070	$ 70	$ 560	$ 3,880	$ 3,000	$ 110	$ 770	$ 6,440	$ 680	$1,460	$ 6,340	$ 1,020	$1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUNp	3,780	3,230	30	520	5,920	4,500	70	1,350	11,140	80	470	9,220	270	1,680
Year to Date														
1984	$27,360	$23,040	$ 40	$4,320	$31,190	$23,650	$2,770	$4,770						
1983	43,390	37,780	3,020	2,590	42,570	34,720	3,300	4,550						
1982	17,670	12,120	1,290	4,260	18,590	12,850	1,310	4,430						
1981	20,970	17,790	540	2,640	25,620	17,740	990	6,890						

Notes: [1] All dollar amounts are in millions.
[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3] Series labeled non-residential are also inclusive of farm data.
[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5] Year-to-date seasonally adjusted series not calculated.

Year and Month	OUTSTANDING END OF MONTH INVENTORY[1]									COVERAGE[4]			SERVICING VOLUME[1]		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982															
JUL	$ 7,020	$3,670	$ 870	$ 670	2,130	$1,660	$190	$1,470	$1,690	63%	44%	54%	$215,890	$25,260	$39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUNp	10,350	8,400	1,840	1,470	5,090	780	0	780	1,170	47	31	120	324,820	61,800	38,670

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
JUL	$110	$ 40	$20	$ 50	$ 40	$430	$ 50	$250	$130	$3,010	$ 600	$ 690	$1,720	$ 610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUNp	350	110	10	230	350	750	110	180	460	4,350	1,460	510	2,380	1,230

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]								NOTES PAYABLE[1]			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
JUL	$ 940	$ 60	$ 330	$ 550	$ 8,900	$ 580	$ 2,250	$6,070	$11,210	$1,930	$ 5,320	$ 3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUNp	1,150	140	60	950	4,580	810	850	2,920	29,920	4,820	12,530	12,570

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8 In Step

20 Track Record

35 CMB

Keeping In Step With ARMs
Diane L. Cortes and Adrienne Schuette 8

Mortgage-Backed Securities' Track Record
Michael Stamper, Patricia Dodson and Rick Watson 20

Hybrid Investments: Alternatives
John R. White and Donald K. Wiest, Jr. 29

The Road to "CMB" 35

Federal Budget Deficits and Zero Sum Games
Edison Zayas 42

Pricing and Analysis of Common Adjustable Rate Mortgages
Michael R. Asay 60

New Appeal in S&Ls
James R. Butler 75

About This Issue 5
People 91
Books 100
Advertisers Index 102
Mortgage Market Trends 105

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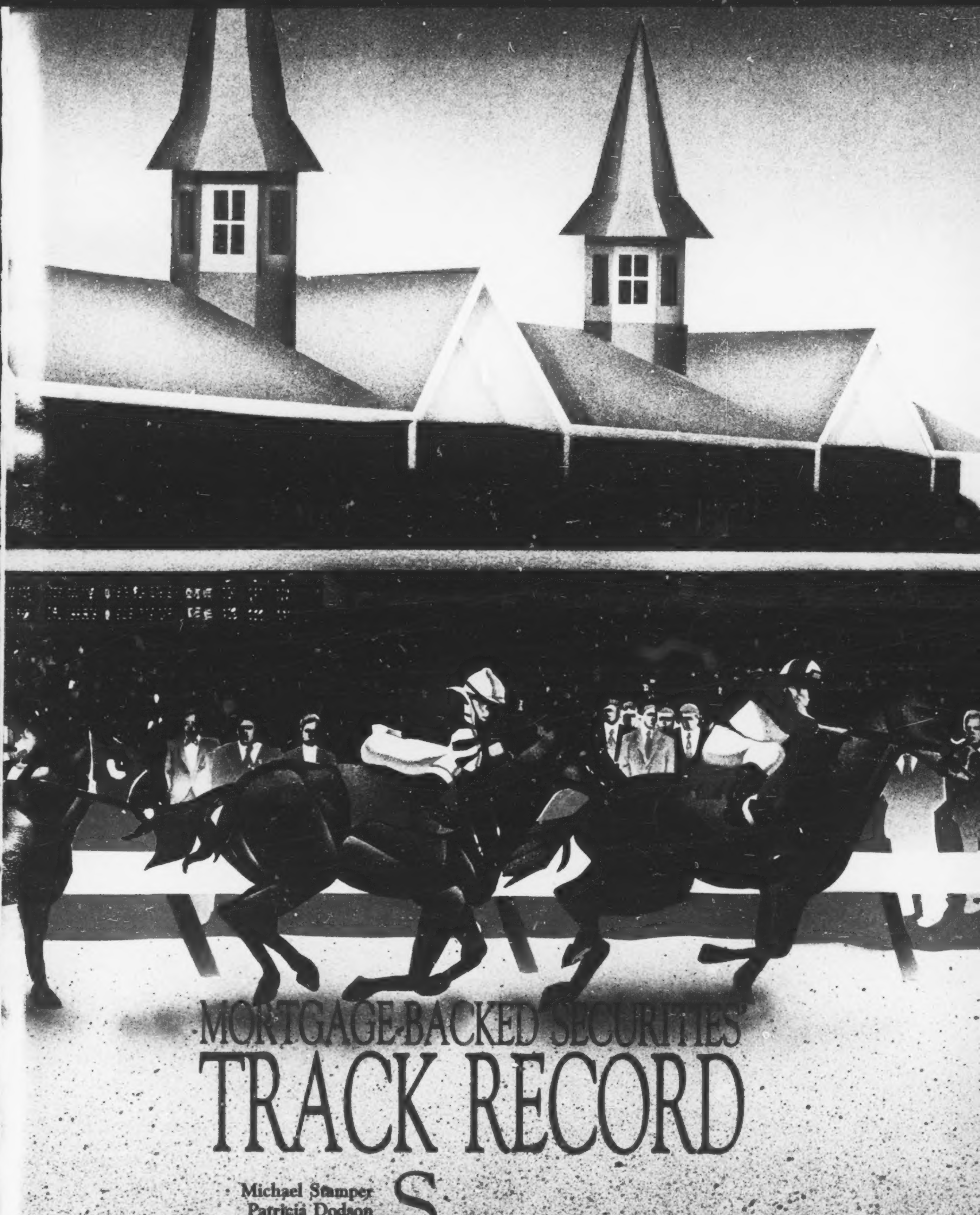

MORTGAGE-BACKED SECURITIES' TRACK RECORD

Michael Stamper
Patricia Dodson
Rick Watson

Securitization—the word is not even in the dictionary, yet the concept of securitizing mortgages has captured the imagination of both housing proponents and major Wall Street investors.

continued

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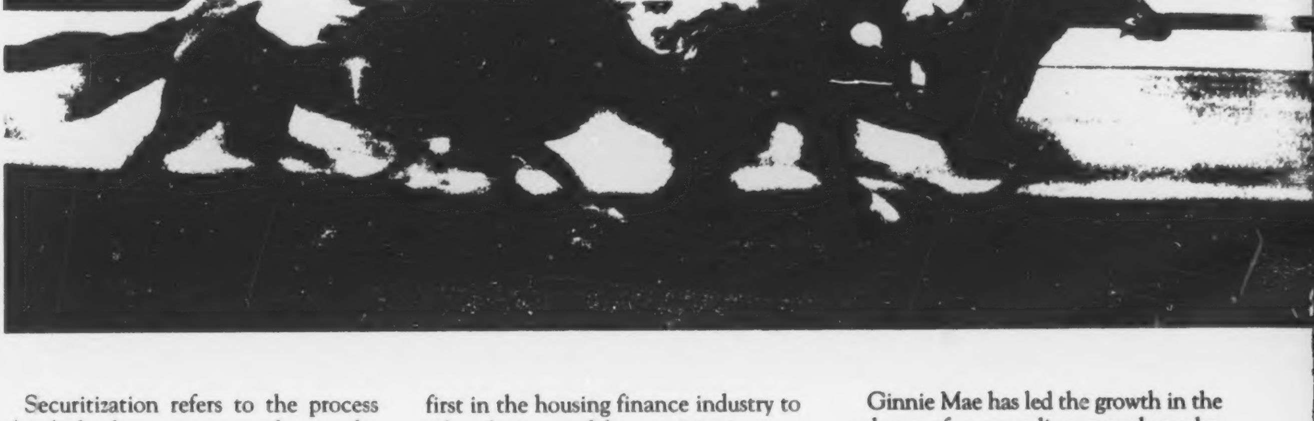

Securitization refers to the process that links the mortgage markets to the capital markets by converting mortgages to securities. Securitization provides a mechanism to feed the capital market's appetite for long-term, fixed-rate, low-risk but high-yielding investments. By converting mortgages to Government National Mortgage Association securities, mortgage bankers were the first in the housing finance industry to take advantage of the securitization process more than a decade ago.

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Mortgage securities' volume has exploded in the last five years, but the growth in mortgage security trading has been even more striking. There are several possible explanations for the increase in trading activity of mortgage pass-through securities. The extreme uncertainty about the course and level of interest rates that has pervaded the financial markets since 1979 may have contributed to the surge in trading activity. Sales of pass-throughs resulting from thrift portfolio restructuring may be an additional factor. It is also possible that the rising popularity of dollar repurchase agreements (dollar rolls) may be increasing the reported trades in the mortgage securities market.

Explosion in volume and trading activity

The volume of outstanding issues of Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Government National Mortgage Association (Ginnie Mae) mortgage pass-through securities has more than doubled in the last two and one-half years. The amount of pass-throughs outstanding jumped from $119 billion at the end of 1981 to $254 billion at midyear 1984. (See chart 1.) These figures attest to the phenomenal growth in securitization of residential mortgages.

Ginnie Mae has led the growth in the volume of outstanding pass-throughs, followed closely by Freddie Mac's Mortgage Participation Certificates (PCs) and Fannie Mae's Conventional Mortgage-Backed Securities (CMBSs). Between 1981 and June 1984, Ginnie Mae pass-throughs outstanding jumped by $65.1 billion. Freddie Mac contributed another $41.4 billion to the market, with Fannie Mae adding $28.6 billion.

While pass-through volume has, indeed, grown at a remarkable rate, the surge in trading activity has been even more striking. The estimated annual trading volume has jumped from $131 billion in 1981 to over $500 billion in 1983 and 1984. The fourfold increase in trading activity has substantially exceeded the doubling of pass-through volume outstanding, implying that the frequency of mortgage pass-through trading has increased.

The turnover ratio provides a measure of trading frequency. The ratio is computed by dividing annual trading volume by the stock of outstanding securities. The ratio provides an estimate of the average number of times an outstanding security exchanged hands during a particular period.

In 1981, pass-throughs exchanged hands an average of 1.1 times, with Ginnie Maes being exchanged more frequently than other pass-throughs. (See Chart 2.) In 1982 and 1983, trading activity rose sharply, especially trading of Ginnie Maes. In the first half of 1984, trading of Freddie Mac PCs and Fannie

Mae CMBSs has continued to accelerate, while the Ginnie Mae turnover ratio has actually declined. The decline in the rate of Ginnie Mae trading has been sharpest in the second quarter of 1984.

Rate volatility

The increased uncertainty over the future course of interest rates provides one plausible explanation for the growth in mortgage security trading. After the Federal Reserve modified its method of implementing monetary policy in October 1979, the volatility of interest rates jumped. An increase in volatility can lead to widely different expectations about the future pattern of interest rates among investors. Different rate expectations lead to different judgments about the value of securities. When investors have widely different perceptions about the value of a security, trading is likely to result as investors seek to take advantage of perceived opportunities for arbitrage.

Volatility in interest rates, however, should lead to an increase in trading of all types of securities, not just mortgage securities. The volatility explanation is thus given some credence by the increase in the turnover ratio of Treasury securities. The turnover ratio was 3.9 in 1978 and 4.7 in 1979. In 1980, the ratio jumped to 6.2. The turnover ratio has continued to increase in 1981 through 1983. (See Chart 3.)

Trading of mortgage securities may be particularly responsive to rate volatility, however, because of the prepayment option included in mortgages and mortgage securities. When interest rates rise, prepayments on fixed-rate loans tend to slow, altering the maturity and yield of pass-through securities. Rate decreases will tend to result in an acceleration of prepayments and a shortening of the pass-through's maturity. Because the exact relationship between interest rates and mortgage prepayments is not completely predictable, the existence of the prepayment option may result in a wider dispersion of forecasted values for pass-through securities among investors. This may result in a more rapid turnover of mortgage securities when interest rates become more volatile.

"Volatility in interest rates, however, should lead to an increase in trading of all types of securities, not just mortgage securities."

Thrift portfolio restructuring

Thrift portfolio restructuring provides another plausible explanation for the growth in mortgage security trading. Restructuring on the asset side has been facilitated by the new investment powers given to thrifts under deregulation. Thrifts concerned that interest rates have shifted to a permanently higher level resulting in insufficient or negative spreads and thrifts plagued by declining net worth have attempted to reduce their exposure to interest-rate risk by selling the fixed-rate mortgages and securities in their portfolios and buying or originating adjustable-rate loans or other shorter term assets. The sale of fixed-rate pass-throughs will increase the reported trades of mortgage securities.

Federally chartered and insured mutual savings and loans, federally chartered savings banks with FSLIC insurance, federally chartered mutual institutions with FDIC insurance, as well as some state chartered thrifts can sometimes sell PCs and mortgages with a deferred recognition of the gains and losses if the institution has elected to report under Regulatory Accounting Principles (RAP). The gains and losses are amortized over the weighted average remaining maturity of the disposed assets using either straight-line or level-yield amortization.

In March 1984, approximately 35 percent of FSLIC-insured thrifts reported

continued

on their balance sheets deferred losses on loans or other assets sold. If a deferred loan loss is on an institution's balance sheet, that institution must have reported under RAP at one time or another. This high percentage of institutions with deferred losses attests to the extent of portfolio restructuring among thrift institutions and the likelihood that restructuring has led to an increase in trading activity of pass-through securities.

Chart 1:

Mortgage Pass-Throughs Outstanding
(Billions of dollars, end of period)

	1981	1982	1983	1984Q2
Ginnie Maes	$105.8	$118.9	$159.8	$170.9
Freddie Mac PCs	$ 19.9	$ 43.0	$ 57.9	$ 61.3
Fannie Mae CMBSs	$ 0.7	$ 14.4	$ 25.1	$ 29.3
Total	$126.4	$176.3	$242.8	$261.5

Source: Federal Reserve Bulletin, September 1984

Chart 2:

Trading of Mortgage Pass-Through Securities
(Dollars in Billions)

	1981	1982	1983	Jan.-June 1984
Ginnie Maes				
Trades	$119	$180	$401	$364
Turnover Ratio	1.2	1.6	2.9	2.2
Other Pass-Throughs				
Trades	$ 12	$ 50	$105	$170
Turnover Ratio	0.7	1.5	1.5	1.9
Total Pass-Throughs				
Trades	$131	$230	$506	$534
Turnover Ratio	1.1	1.6	2.4	2.1

Notes: Turnover ratio calculations based on the outstanding volume of Ginnie Maes, PCs and CMBs in the middle of the period. Farmers Home securities are excluded because the majority of the securities is held by the Federal Financing Bank. 1984 data have been annualized. Data on trades reported by the New York Federal Reserve. The data have been adjusted for regional trading and double counting.

Chart 3:

Turnover Ratio for Treasury Securities

	1978	1979	1980	1981	1982	1983
Turnover Ratio	3.9	4.7	6.2	7.7	9.2	9.6

Notes: Trades include immediate and forward transactions and exclude transactions between dealers. Outstanding volume measured by Treasury securities held by the public and the Federal Reserve Banks. Turnover ratios calculated from the average daily transaction volume reported by the Federal Reserve Bank of New York.

Thrift institutions have also engaged in restructuring through mergers. The number of FSLIC-insured institutions has dropped from 4002 at the end of 1980 to approximately 3169 in August 1984. This 20 percent decline in the number of institutions gives some evidence of the extent to which mergers have occurred in the thrift industry.

After a merger, low coupon loans and pass-through securities can sometimes be sold without the recognition of a loss for financial statement purposes if the merger has been completed under the purchase method of accounting. The purchase method of accounting is acceptable under Generally Accepted Accounting Principles (GAAP). Under the purchase method of accounting, the assets of the acquired institution are recorded on the new institution's balance sheet at market instead of at book value, which may be higher. The difference between the market value of the assets and the purchase price is recorded as goodwill on the balance sheet. For certain financially troubled banking and thrift institutions, goodwill must be amortized using an accelerated method over the lesser of 40 years or the remaining life of the long-term, interest-bearing assets that were acquired in the transaction.

Immediately after a purchase accounting merger, a thrift can generally sell fixed-rate pass-throughs without a loss recognition. This provides a perfect opportunity for portfolio restructuring that many thrifts have used. Thus, as a result of pass-through sales after purchase accounting mergers, trades of mortgage securities have increased.

Thrift portfolio restructuring could also help to explain why the turnover ratio for Freddie Mac PCs and Fannie Mae CMBSs has continued to rise in 1984 while the turnover ratio for Ginnie Mae has declined in this period. Thrifts collectively hold a slightly smaller dollar amount of Ginnie Maes than other pass-throughs (Freddie Mac PCs plus Fannie Mae CMBSs). Moreover, thrifts' share of the total dollar amount of outstanding Ginnie Maes is smaller than their shares of outstanding Freddie Mac PCs and Fannie Mae CMBSs. Given these two factors, thrift portfolio restructuring would be expected to lead to sales of fewer Ginnie Mae securities, and thus have a smaller impact on the Ginnie Mae turnover ratio than it has had on the turnover ratios for other pass-through securities.

Dollar rolls

The increased popularity of dollar rolls provides another possible explanation for the rise in reported trades of pass-through securities. A dollar roll is a simultaneous agreement to sell a security and then buy a similar but not identical security back at a future date at an agreed-upon price. In its survey, the New York Federal Reserve excludes repurchase agreements, reverse repurchase agreements, and similar contracts from the reported trades of pass-through securities. The New York Fed does not explicitly ask dealers to exclude dollar rolls from the trading reports. Consequently, the heightened popularity of dollar rolls may be increasing the turnover ratio for pass-through securities if some dealers are reporting dollar rolls as trades.

Book-entry processing: Freddie Mac's response

The growth in trading has resulted in an increase in the paperwork burden of documenting and executing trades. Freddie Mac is actively taking steps to eliminate or reduce the amount of paperwork involved in trading securities. The corporation has announced plans to issue PCs through the book-entry system of the Federal Reserve Bank of New York (FRB-NY) beginning in January 1, 1985.

Freddie Mac plans to replace the paper certificate form of trading its PCs with an electronic system. The corporation is the first in the industry to adopt a book-entry processing system. The FRB-NY will act as registrar, transfer, and paying agent for Freddie Mac PCs, and the PCs will trade electronically on the Fed wire. The FRB-NY already handles the Corporation's debentures and discount notes on book-entry.

Because change in the ownership of the PCs will no longer require that paper documents change hands, a number of paper-intensive activities will be curtailed or eliminated, including having to move the securities among safekeeping accounts, verifications, and

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FEDERAL BUDGET DEFICITS and ZERO SUM GAMES

Edison Zayas

> *"An old proverb says that heavenly vengeance pursues a crime slowly but nevertheless catches up with it in the end. In matters of debt, the penalty is not halting; it pursues the culprit at a gallop."*
>
> *unknown French economist-1820*

ILLUSTRATION BY: KEN KRAFCHEK

Among the many challenges faced by public policymakers today, few are as critical to our nation's economic health and to the housing-related industries as the need to reduce dramatically the existing and projected federal budget deficits. While the presence of an anti-inflationary monetary policy is an absolutely necessary ingredient in the policy prescription for sustainable economic growth, events in the last few years have shown that the price stability fostered by a sound monetary policy cannot by itself ensure long-lasting and broad-based economic growth. For that to occur, our nation's fiscal policy must also be on a sound footing.

Indeed, when the 99th Congress convenes early in 1985, intensified efforts to reduce federal budget deficits will command top billing on the legislative agenda. It is also widely believed that the future health of housing-related industries in particular will depend a great deal on how successful those deficit-reducing efforts turn out to be. Further, the methods by which legislators attempt to reduce those budget deficits will be as important as the amounts by which the deficits are actually lowered.

Federal budget deficits and capital formation

A speedy resolution of the budget deficit problem is particularly important to mortgage bankers because the health of the real estate finance industry depends on the availability of a pool of loanable funds derived from our nation's stock of savings. Due to the fact that federal budget deficits are financed out of the same stock of savings, federal borrowing used to finance those deficits diverts funds to the federal government that might otherwise be available for private sector investment outlays.

In recent years, this diversion of national savings to the federal government has grown to the point where federal borrowing is now absorbing the bulk of yearly savings growth. For example, in the latter half of the 1970s, federal budget deficits averaged about 23 percent of the yearly growth in net national savings, and in 1979 the budget deficit was only 9 percent of national savings (see Table 1). This relatively low rate of federal absorption of savings was due to steadily rising national savings growth and to steadily declining federal budget deficits in that period.

Beginning in 1980, however, a reversal of that trend began to occur. As economic activity declined between 1980 and 1982, savings growth slowed, and federal budget deficits rose abruptly in response to both the slower economic growth and the transitory effects of the 1981 tax cuts. The result was that by 1983, the federal budget deficit was absorbing 75 percent of the yearly growth in national savings. In other words, out of the total amount of funds added to our national stock of savings in 1983, three-quarters of that amount was siphoned off by the federal government, leaving a scant one-quarter of those funds available for private sector investment.

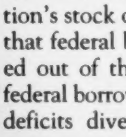
The increase in the federal government's borrowing requirements can also be measured by observing federal intervention in the credit markets (see Table 2). Throughout the last half of the 1970s, funds raised by the federal government averaged about 17 percent of the total funds raised by nonfinancial sectors on a yearly basis. From 1982 through 1983, however, the share of federal borrowing more than doubled, accounting for an annual average of 31 percent of total funds raised. In 1983, the share of federal borrowing was about 37 percent of total funds raised, and it was as high as 41 percent in 1982.

In short, the large federal budget deficits experienced over the last four years have dramatically raised the federal government's participation in the credit markets. This, in turn, has greatly limited the availability of inexpensive domestic capital to the private sector.

Structural vs. cyclical federal budget deficits

What makes this rising trend in federal borrowing particularly disturbing is that the federal budget deficits spawning these federal credit demands are not expected to decrease significantly with sustained increases in economic growth. Typically, federal budget deficits rise sharply in response to economic contractions that force tax revenues down and unemployment compensation outlays up. Conversely, as the economy enters into the recovery stages of business cycles, budget deficits have typically declined approximately to the levels that existed at the peaks of previous cycles.

Unfortunately, however, the previous pattern of rapidly declining federal budget deficits is not likely to be repeated during the recovery phase of this cycle. The Council of Economic Advisers estimates that more than three-quarters of the federal budget deficit is attributable to structural factors, such as rising Social Security and Medicare payments associated with the relative aging of the American population and to the snowballing volume of net interest costs incurred by the federal government (see Table 3). As a consequence, even if the unemployment rate approaches 6 percent, a rate many economists associate with full employment, the federal budget deficit is still expected to remain around $200 billion without corrective action. Thus, even a booming economy, leading to full employment, will not eradicate the budget deficit. The implication is that



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if appropriate legislative action is not taken, large budget deficits will plague our economy for years to come.

The ramifications of such a fiscal outlook are especially troubling for the interest-sensitive sectors of the economy like the real estate finance industry. Given that the Federal Reserve Board is unlikely to monetize future budget deficits by increasing money supply growth to accommodate federal borrowing needs, the implication of large budget deficits is that private sector capital formation is likely to be "crowded out." Further, the extended presence of large federal borrowing implies that at a given level of industrial capacity use, interest rates will be higher than would otherwise be the case. This effect is already visible. In the third quarter of 1973, when the rate of capacity utilization was at a high of 87.8 percent, short-term interest rates averaged 8.3 percent. Today, the rate of capacity utilization is only around 82.6 percent, and yet short-term interest rates are over 10 percent.

Foreign capital and budget deficits

While some point to the strength of the current recovery as evidence that the record-high budget deficits have had no detrimental impact on the economy, the fact is that without the foreign capital inflows experienced over the last three years, the federal government's heavy borrowing requirements would most assuredly have fostered higher interest rates than what we have today.

According to the Council of Economic Advisers, capital inflows attracted from abroad by high U.S. interest rates are financing roughly 40 percent of the federal budget deficit. In effect then, the voluminous influx of foreign capital has, to a large degree, financed the U.S. recovery by boosting our savings pool and by allowing the vigorous upturn in consumption and investment expenditures to occur in the presence of large federal budget deficits.

Although these investment funds from abroad have been a major factor in sustaining the current recovery by dampening interest rate pressures emanating from our budget deficits, we should not rely on foreign investments as a means of financing our economic expansion because the government could incur substantial costs and would experience serious limitations as well. First, because foreign investors must purchase dollars to buy dollar-denominated securities, strong foreign capital inflows have augmented the appreciation of the foreign exchange value of the dollar. This in turn has contributed to the severe erosion of the price-competitiveness of U.S. exports.

Since 1981, the trade-weighted value of the dollar vis-a-vis the currencies of the Organization for Economic Cooperation and Development (OECD) countries has increased by over 30 percent, contributing to a 15 percent decline in the dollar volume of U.S. merchandise exports. Conversely, the corresponding depreciation of the foreign exchange values of the currencies of our major trading partner countries has contributed to a 22 percent increase in the dollar volume of imported goods since 1981. As a consequence, we are now incurring a merchandise trade balance deficit of around $120 billion at an annual rate, and employment in our trade-related industries is down sharply. While there are no reliable estimates available regarding the

continued

Table 1

National Savings ($ billions)

	1976	1977	1978	1979	1980	1981	1982	1983
Personal Savings	$ 82.5	$ 78.0	$ 89.4	$ 96.7	$106.2	$130.2	$125.4	$114.7
Undistributed Corporate Profits w/IVA¹ & CC² Adj.	36.9	53.7	62.1	54.5	38.9	44.4	37.0	78.3
State & Local Gov. & Surplus/Deficit	6.6	28.0	30.3	30.4	28.1	31.7	31.3	51.1
Capital Grants Received by U.S.	0	0	0	1.1	1.1	1.1	0	0
Net National Savings	$136.0	$159.7	$181.8	$180.5	$172.1	$205.2	$193.7	$244.1
Federal Budget Deficit*	$ 53.1	$ 45.9	$ 29.4	$ 16.1	$ 61.4	$ 60.0	$147.1	$182.8
Federal Budget Deficit as Percent of Net National Savings	39.0%	28.7%	16.2%	8.9%	35.7%	29.2%	75.9%	74.9%

[1] *Inventory Valuation Adjustment* [2] *Capital Consumption*

**Budget deficits on national income and product accounts basis.*

Source: National Income and Product Accounts, Bureau of Economic Analysis, U.S. Department of Commerce.

Table 2

Federal Borrowing in the Credit Markets ($ billions)

Year	Net Borrowing by U.S. Government	Total Funds Raised by Nonfinancial Sectors	Federal Borowing as Percent of Funds Raised
1983	$186.6	$509.5	36.6%
1982	161.3	395.3	40.8
1981	87.4	377.2	23.2
1980	79.2	343.2	23.1
1979	37.4	386.0	9.7
1978	53.7	369.8	14.5
1977	56.7	319.4	17.8
1976	69.0	243.5	28.3

Source: Federal Reserve Board Flow-of-Funds

employment impact of the trade imbalance on our import-competing industries, the Department of Commerce estimates that between 1980 and 1983 roughly 1.5 million jobs were lost in U.S. export-related industries alone. Although not all of that decline in export-related employment can be attributed to the strength of the dollar, it is reasonable to assert that the deterioration in the price-competitiveness of U.S.-made goods fostered by the appreciation of the dollar has been a significant factor in the drop in export-related employment.

The effect of foreign financing of our domestic budget deficits has been to shift the burden of the pricing-out effect to our export- and import-competing industries, with proportionately less being borne by the construction, consumer, and capital goods industries.

Further, this foreign financing of a great portion of our federal budget deficit involves another significant cost. By commiting ourselves to a future payment stream of interest and dividends, we are issuing to the rest of the world claims on our future output. Consequently, although the influx of foreign capital has allowed our economic expansion to occur in the presence of record-high budget deficits, this borrowing from abroad means that less of our resources belong to us because a greater amount of our future industrial production will go towards paying off our debt to foreign countries.

Finally, and perhaps most importantly, foreign financing of our budget deficit, albeit partial, nevertheless increases our domestic economy's vulnerability to the volatile swings in international capital flows. Should foreign investors pull out their funds in response to a sudden loss of confidence in U.S. economic policies or conditions, interest rates in this country would increase sharply. This in turn would abort our recovery and raise the specter of widespread loan defaults by the debt-ridden, less-developed countries. Ostensibly, the probability attached to the latter course of events increases the length of time we rely on foreign funds to finance major portions of our federal government's borrowing requirements.

In short, greatly reducing the existing federal budget deficit is critical to the health of the real estate industry and to that of the American economy as a whole. Lower deficits will increase the availability of investment funds to the private sector, allow for more balanced economic growth, and reduce our costly and potentially destabilizing dependence on foreign capital.

Deficit reduction policy alternatives

The manner in which the deficit will be reduced is as important as the amount by which it is reduced. Persistently large federal federal budget deficits are harmful because they absorb the financial resources (i.e., savings) needed to fund the future investments required to maintain and/or improve commercial competitiveness and living standards. Consequently, the appropriate goal in dealing with our fiscal problem is not necessarily to reduce the size of the deficit per se, but rather to decrease the size of the deficit relative to national savings. The strengths and weaknesses of proposed policy actions aimed at improving our federal government's fiscal standing should be judged in the context of the latter criteria.

Suggested alternatives

Alternative 1—Do Nothing Policy: A minority of analysts and public policymakers argue that sustained, vigorous economic growth will, by itself, substantially reduce the size of the budget deficit over time. According to this school of thought, there is also no evidence to support the belief that federal deficits are in fact harmful to economic growth. Typically, proponents of this view have pointed out that numerous studies have been unable to show a positive and statistically significant correlation between budget deficits and high interest rates. At the same time, they argue that with the integration of the international capital markets, domestic federal budget deficits lose much of their significance in terms of their impact on our domestic credit markets. The implication of the latter line of reasoning is that because of the magnitude of foreign capital inflows, there is no reason to believe that federal deficits will significantly crowd out private sector investment funds.

While there are elements of truth in most of these arguments, on balance they do not convincingly support the view that deficits do not matter. First, although the cyclical component of the budget deficit accounted for roughly 50 percent of the total deficit in 1982 and 1983, both the Council of Economic Advisers and the Congressional Budget Office confirm that for fiscal years 1984 through 1989, the cyclical component will decline steadily, and the structural component will rise disproportionately, accounting for well over three-quarters of the deficit throughout the remainder of the decade. According to these sources, strong economic growth will not substantially curtail the deficit, because the bulk of it is caused by the growth of autonomous federal spending

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Table 3

The Cyclical and Structural Components of the Deficit: 1980-89 ($ billions)

Fiscal year	Total deficit	Deficit as percent of GNP	Cyclical component	Structural component	Structural as percent of trend GNP
Actual					
1980	$ 60	2.3%	$ 4	$ 55	2.1%
1981	58	2.0	19	39	1.3
1982	111	3.6	62	48	1.5
1983	195	6.1	95	101	2.9
Projected					
1984	$187	5.3%	$49	$138	3.7%
1985	208	5.3	44	163	4.2
1986	216	5.1	45	171	4.1
1987	220	4.8	34	187	3.9
1988	203	4.1	16	187	3.8
1989	193	3.6	-4	197	3.8

Source: Economic Report of the President, *Council of Economic Advisors, February 1984.*

commitments that are unrelated to the pace of economic activity.

Second, in a study[1] presented before the Western Economic Association in June 1984, it was shown that previous studies that revealed no positive relationship between budget deficits and interest rates do in fact disclose such a relationship when one separates the cyclical component from budget deficits and the effects of foreign capital inflows on domestic interest rates. While the authors of the study caution that their results do not entirely resolve the controversy over the economic effects of federal budget deficits, the study strongly suggests that deficits do indeed affect interest rates in ways that one would expect. The failure of previous studies to show that relatively large budget deficits produce higher interest rates appears to be because the effect of deficits on interest rates was being disguised by the failure to take into account the effect of foreign capital on United States interest rates and the cyclical vs. structural components of budget deficits.

However, even if one temporarily ignores the findings of the latter study, the inability initially to detect a positive relationship between budget deficits and interest rates during the 1960s and 1970s should not be surprising. In the 20-year period between 1960 and 1980, the average annual deficit incurred at all levels of government was only 0.6 percent of GNP. During that time, federal deficits were almost offset by surpluses at the state and local level. Given the fact that net national savings averaged between 6 and 8 percent of GNP at that time, almost all of the flow of private savings was available for private sector investment because the size of government deficits was comparatively minor. Therefore, under these circumstances, one would not expect federal budget deficits to have significantly influenced interest rates because no crowding out of financial resources was effectively taking place.

Current and projected circumstances, however, are vastly different. Federal budget deficits are now accounting for about 5 percent of GNP and total government deficits roughly 4 percent of GNP. Barring any significant changes in the tax code, net national savings are not expected to rise appreciably above their long-term trend of about 7 percent of GNP. This implies that government deficits are absorbing far more private savings than what was even experienced in the 1960 to 1980 period. Under this entirely new set of circumstances, the likelihood of financial pricing-out taking place is substantially higher, and common sense dictates that the probability of observing a positive relationship between large budget deficits and high interest rates is much greater. In fact, interest rates at this stage of the ongoing business cycle are already far above the interest rate levels that prevailed during the analogous phases of previous cycles.

Massive inflows of foreign capital have to a very large degree diminished the potentially adverse effects of large budget deficits on our capital markets. Capital from abroad is currently financing about 40 percent of the federal budget deficit. However, there are substantial long-term costs associated with foreign financing of our budget deficit that significantly detract from the short-term benefits. To argue that large budget deficits are less harmful to long-term economic growth because foreign capital inflows supplement our domestic capital stock ignores the very real risks associated with being a net debtor country.

It is fair to say that most analysts and policymakers agree that to do nothing about the federal budget deficit risks certain economic stagnation, while it also increases our vulnerability to swings in international capital flow. Therefore to do nothing about the budget deficit is an unacceptable course of action.

Policy Alternative 2—Cut Federal Spending: It is widely recognized that a dramatic reduction in federal spending is by far the most preferable manner in which to curtail the size of the deficit. Government spending absorbs resources that otherwise would be available for use by the private sector. Indeed, government spending is the real measure of the tax burden on our society, for all government programs must be financed by taxes, be they explicit or implicit (i.e., hidden) taxes resulting from inflation. Thus, reducing federal spending is the most effective way of decreasing the budget deficit, because it directly frees up resources for the private sector and by so doing has a stimulative effect on the economy.

Unfortunately, recent efforts to achieve significant reductions in federal spending have failed miserably. The inability to achieve substantial spending reductions is principally due to the fact that past efforts were aimed mainly at cutting outlays in the nondefense, discretionary spending category of the federal budget. Programs in the

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Table 4

Projected Federal Budget Outlays, By Major Category FY1984 and FY1989 ($ billions)

	FY1984	FY1989	Change
National Defense	$230	$ 406	76.5%
Entitlements & Other Mandatory Spending	396	551	39.1
Nondefense Discretionary	155	199	28.4
Net Interest	111	214	92.8
Offsetting Receipts	-47	-66	40.4
Total Budget Outlays	$845	$1,305	54.4
National Defense	27.2%	31.1%	
Entitlements & Other Mandatory Spending	46.9	42.2	
Nondefense Discretionary	12.8	10.2	
Net Interest	13.1	16.5	
Total	100%	100%	

Source: Economic and Budget Outlook: An Update *August 1984, Congressional Budget Office.*

nondefense, discretionary spending category are more vulnerable to cutbacks, because expenditures on those programs are determined through the annual Congressional appropriations process. However, spending programs in the latter category account for the smallest proportion of total federal outlays and are projected to be the slowest-growing among all the major federal spending categories.

In fiscal year 1984, nondefense, discretionary spending accounted for about 13 percent of total federal outlays, and even if no additional deficit-reduction measures are undertaken, spending in that category is expected to decline to 10.2 percent of federal outlays by fiscal year 1989 (see Table 4). Thus, with a projected fiscal year 1984 budget deficit of $172 billion, even if every program in the nondefense, discretionary spending category were eliminated, a deficit of $64 billion would still exist.

While the prospect of eliminating all of these programs is neither appropriate nor realistic (this category includes the legislative, judicial, tax-collecting functions; grants to state and local governments; nondefense research and development; the FBI; the Space Shuttle; the Coast Guard, and so on) even the outright elimination of all these programs would not succeed in eliminating the deficit. In any event, Congress has already balked at consenting to further cuts in these areas. Thus, a genuine effort to cut federal spending precludes focusing on the nondefense, discretionary spending elements in the budget. Instead, cost-cutting plans will have to be directed towards the big ticket items in the budget that can generate truly sizeable savings.

In Table 4, it is clear that if spending is to be cut sufficiently to have a substantial impact on the budget deficit, dramatic cutbacks in projected defense and entitlement expenditures will have to occur—both of which are considered to be fiscal "sacred cows."

In the national defense area, for instance, the general perception among political leaders is that the American public supports a strengthening of U.S. defense capabilities during these highly uncertain times in world affairs. While Congress has not approved large portions of the Reagan Administration's defense spending requests, the fact is that during the last three years defense outlays in real terms have increased by 25 percent. Further, although Congress has significantly scaled back the Reagan Administration's defense budget requests in the last two fiscal years (the real growth rate requested was cut in half in 1983 and by two-thirds in 1984), it is widely perceived that defense spending may nevertheless increase at a real average annual rate of approximately 5 percent through the remainder of this decade. This in turn implies that defense spending will increase by over 76 percent between fiscal years 1984 and 1989, and defense outlays will account for over 31 percent of total federal outlays by the end of the decade. Thus, barring a sudden change in sentiment on the part of the public and Congress, it is unlikely that expenditure reductions will occur in the national defense area that are large enough to have an appreciable impact on the budget deficit.

Clearly then, if spending cutbacks of any significance are to be realized, they will have to occur in the entitlement and other mandatory spending programs. These are programs where spending is governed by laws making all individuals who meet specified requirements eligible to receive federal payments. Outlays in these programs are not determined by annual appropriations. The principal entitlement programs are Social Security, Medicare, Medicaid, agricultural commodity price supports, and other entitlements, which include Aid to Families with Dependent Children, Supplemental Security Income, unemployment compensation, and food stamps, among many others.

It is in these mandatory spending programs where the growth in federal expenditures has been the most dramatic. First, changes in demographic conditions (an aging population) and economic factors (rising nominal wages) caused both the number of beneficiaries and the benefit levels to grow sharply on their own. Second, legislative actions that created new programs or modified existing program rules served to expand benefits for the pool of eligi-

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ble recipients. As a consequence, from 1965 to 1983 expenditures on entitlement programs grew from 5.5 percent of GNP to 12.4 percent of GNP. In particular, outlays on the non-health entitlement programs, (e.g., Social Security Service Retirement, unemployment insurance, food stamps), picked up sharply in the 1970-1975 period, as eligibility requirements were liberalized, benefit levels raised, and cost-of-living-adjustments (COLAs) instituted. Social Security outlays, for example, increased by 680 percent between 1965 and 1980. Moreover, reflecting the escalating costs of health care nationwide, outlays on health care entitlement programs (Medicaid and Medicare) have also risen astronomically. Much of this increase has been due to improvements in the quality of health care resulting from technological advances, while much has been fostered by the increased demand for health care instigated by the wider availability of health insurance coverage (private coverage as well as Medicare and Medicaid).

The net result of this explosion in entitlement program expenditures has been that mandatory programs now account for almost 47 percent of total federal outlays, and, if left unchanged, spending on entitlement programs is projected to increase by almost 40 percent between now and fiscal year 1989. To be sure, if spending cuts are to play any meaningful role in future efforts to reduce the size of the federal budget deficit, simple arithmetic dictates that benefits in the entitlement programs will have to be cut back. More specifically, because benefits in the non-means-tested programs (Social Security, railroad retirement, military and civil services retirement, veteran's benefits, and unemployment insurance) constitute 82 percent of total non-health entitlement spending, it is clear that these programs will have to be scrutinized carefully. Similarly, because outlays in the Medicare program are projected nearly to double between fiscal years 1984 and 1989 without corrective action, an effort at cost containment in this area will require either limiting hospital and/or physician reimbursements or require beneficiaries to bear a greater share of the medical costs.

Whatever spending reductions are made in the entitlement programs, it is critical that they take place quickly, rather than occur in the out-years of the budget projections. The sooner large spending reductions are realized, the smaller the adverse impact of the budget deficit on capital formation will be. At the same time, the longer it takes for spending cuts to occur, the greater the chances that those legislated expenditure reductions will be repealed at a later date.

Obviously, the political risks associated with the scaling back of these entitlement programs are so high that it seems reasonable to suggest that significant spending cuts in these areas, while possible, are highly improbable. The combined proclivity toward survival and the political acumen of our legislators make it doubtful that they will clearly outline to the voters that substantial federal spending cuts necessarily involve reductions in entitlement program benefits.

> **"The ideal method to lower federal budget deficit would be to dramatically decrease government outlays."**

Of course, if our political leaders refuse to put a halt to the spiraling costs of entitlement programs, there is another obvious alternative they could resort to—raising taxes.

Policy Alternative 3—Raise Taxes: When considering the difficult choices confronting policymakers on the spending side, the probability is much higher that legislators will seek to close the gap between federal spending and federal revenues by increasing taxes. Since the enactment of the Economic Recovery Tax Act in 1981, which lowered taxes by almost $750 billion between fiscal years 1981 and 1986, two bills have been enacted that have raised taxes with the intent of reducing the budget deficit. In 1982, the Tax Equity and Fiscal Responsibility Act (TEFRA) was enacted, raising taxes by an estimated $214 billion; in 1984, the Deficit Reduction Act was signed into law, increasing taxes by an additional $50 billion. Thus, more than a third of the 1981 tax cuts has already been reversed.

In all likelihood, this trend of relying principally on tax increases to lower the budget deficit will persist in 1985. Indeed, the question is not whether taxes will be raised, but rather, which taxes will be raised. To be sure, the manner in which taxes are raised will be of critical importance to the long-term viability of the real estate finance industry. It is the capital-absorption effect of budget deficits that make them harmful to economic growth over the long run. Consequently, the deficit problem should be viewed in the context of budget deficits relative to national savings. If one accepts the proposition that tax increases will by far outweigh spending reductions in upcoming deficit-reduction initiatives, then it is critically important that those tax increases not be biased against savings. Tax increases that have an adverse impact on savings and investment incentives will either neutralize the benefits derived from potentially lower deficits or will exacerbate the very capital-absorbing effect that makes budget deficits harmful.

Unfortunately, the tendency of policymakers has been to focus exclusively on the effectiveness of proposed policy actions on lowering the size of the deficit itself, without regard to the impact of those actions on capital formation. For example, in the 1982 tax-raising bill, one of the provisions would have imposed tax withholding requirements on interest and dividend

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payments made to savers and investors. The intent of that provision was to help lower the deficit by increasing tax collections on unreported interest and dividend earnings.

The inclusion of this provision in the 1982 tax act was a classic example of the failure of our legislators to understand why budget deficits matter and how we should go about dealing with them. Although the interest withholding provision did not represent a tax increase on interest and dividend earnings, it did represent a strengthening of a provision in the tax code that explicitly penalizes people for saving money. As such, the taxation of interest and dividend earnings has an inhibiting effect on capital formation and thereby stunts the growth of the pool of loanable funds used to finance both private and public sector credit needs.

Therefore, if one accepts the notion that budget deficits are harmful because they absorb an already limited pool of savings, then it makes no sense to strengthen a tax code provision that is a key factor in limiting that pool of savings. While the interest withholding provision was eventually repealed, had the concept of relating deficits to savings been emphasized, it is doubtful that the withholding provision would have been part of the 1982 tax bill.

Similarly, the 1984 Deficit Reduction Act repealed a provision in the tax code that would have permitted an exclusion of 15 percent of an individual's net interest income up to $3,000 ($6,000 in the case of a joint return). This provision, which was enacted in the 1981 tax bill and was to become effective in 1985, would have reduced the perverse effect the taxation of interest earnings has on capital formation. Of course, whatever revenue savings are generated by the repeal of that provision will be offset by the commensurately lower growth in national savings associated with its repeal.

Further, the 1984 tax bill's extension of the real property recovery period from 15 to 18 years under the accelerated cost recovery system (ACRS) should serve as notice that the entire ACRS is vulnerable to change next year in an effort to raise federal revenues. This too would be a counterproductive means of raising revenues, for the existence of ACRS has greatly boosted the ability of companies to invest in plant and equipment in the face of high interest rates. Additional restrictions on ACRS would cut into the investment expenditures needed to improve the long-term competitiveness of American business, which would be short-sighted, to say the least.

If a consensus emerges in the next session of Congress that substantial tax increases will have to be relied upon to bridge the gap between federal spending and revenues, the main challenge facing the key players on both the Senate Finance and House Ways and Means Committees will be how to raise taxes without adversely affecting capital formation.

> **"The future of the housing industry will remain hostage to the existing federal budget deficit until it is dramatically reduced."**

Even if Congress can successfully put together a package of tax increases that have no detrimental effect on savings and investment incentives, the post-World War II experience among the world's major democratic economies, including the United States, has been that tax increases have not resulted in lower government budget deficits. Legislated increases in government revenues have typically been used to finance additional spending because sponsoring new government programs tends to generate more favorable votes than does the earmarking of new revenues to help finance programs already on the books. Thus, if taxes must be raised, the challenge facing Congress is both to raise taxes without impairing savings and investment growth and also to ensure that the added revenues are not used for additional spending.

Economic policymakers in this decade are faced with the formidable task of substantially lowering the federal budget deficit without fostering side effects that negate the intended benefits of the deficit-reduction measures.

Not to act at all risks certain economic stagnation. If left unchecked, the mounting national debt will choke off private sector capital formation and inhibit job creation. The federal budget deficit must be dealt with, and it must be dealt with immediately. The longer that difficult decsions are delayed, the more difficult those decisions will become.

The ideal method to lower federal budget deficit would be to dramatically decrease government outlays. Excessive federal spending is at the heart of the deficit problem, and the focus of deficit-reduction actions should be on curtailing government spending. Lowering federal expenditures not only decreases the deficit, but also decreases the deficit relative to savings and thereby directly releases resources for use by the private sector. As such, the ideal policy would be to slow the growth of federal spending to a rate below that of national income growth.

However, to lower the deficit mainly through spending cuts, the composition of the federal budget would require the politically sensitive entitlement and defense programs to be the principal targets of massive spending reductions. Congress has been traditionally reluctant to tamper with these programs, and political realities suggest that tax increases will continue to outweigh spending cuts in future deficit reduction initiatives. It is imperative that future tax increases have a neutral effect on savings and investment incentives. Tax in-

continued

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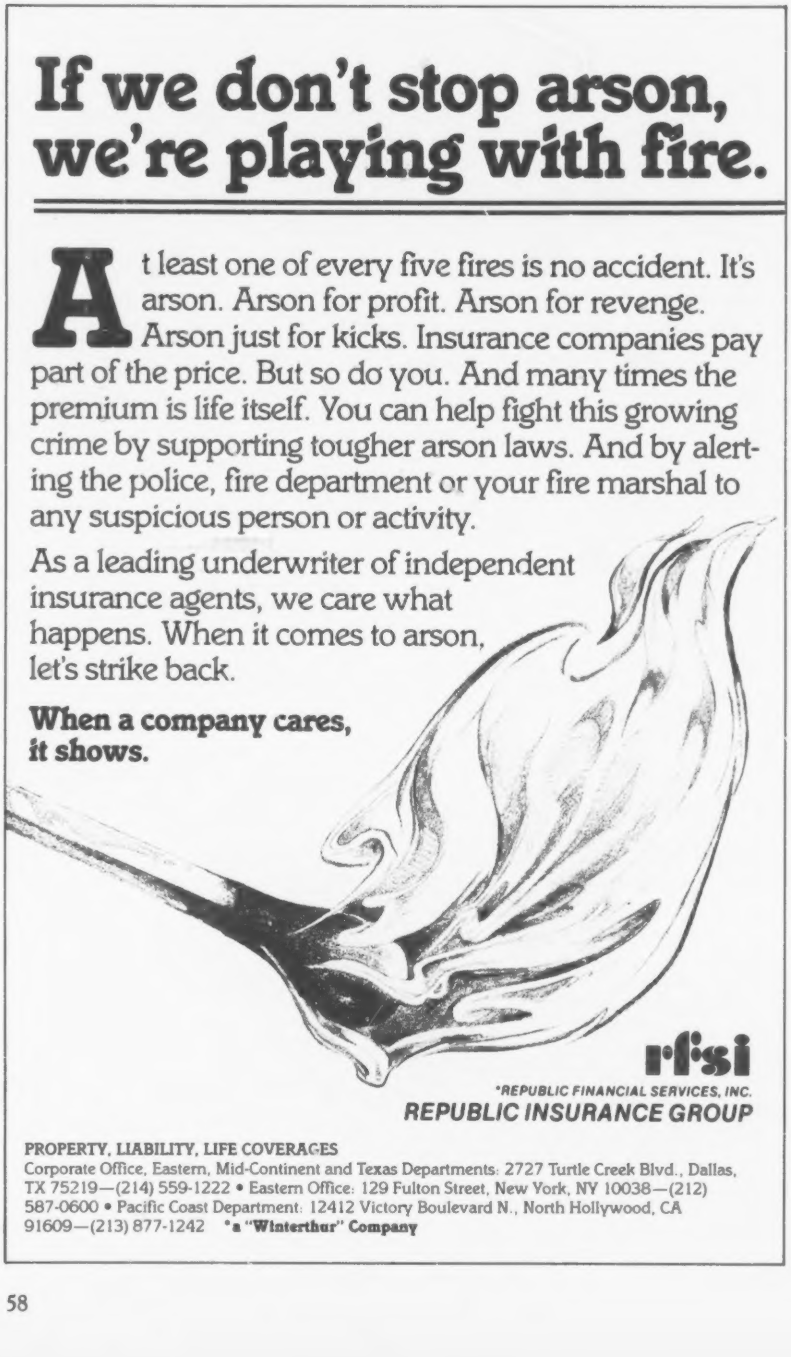

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creases that are biased against savings and investment are a self-defeating means of dealing with the deficit, for they contribute to economic stagnation by limiting capital formation—the very lifeblood of market economies and the real estate finance industry.

If tax increases must constitute a large portion of future deficit-reduction packages, and if those tax increases are to have a neutral effect on savings and investment, a viable alternative is to institute a consumption-oriented tax that is capable of generating substantial revenues at low tax rates. A recent survey shows consumers prefer sales taxes to income taxes. Whether such a tax on consumption takes the form of a value added tax (VAT), a tax on business transactions (TBT), a national sales tax, or an energy tax, the revenues from a consumption tax could be earmarked for lowering the deficit. Many analysts feel that by supplementing income tax revenues a consumption tax would alleviate much of the pressure on the income tax (with all of its anti-savings biases) to produce more revenues. This would permit long-overdue comprehensive tax reform to take place in an atmosphere where the need for revenues does not overwhelm sound tax policy considerations.

The upcoming debate on how to tackle the federal budget deficit will produce a package comprised of both expenditure reductions and tax increases. With luck, there will be a balanced mix of the two alternatives. For this to occur, Congress and the Executive branch will have to face up to the need to restrict entitlement benefits, while recognizing the counterproductive nature of taxes on savings and investment. The ability of our political leaders successfully to meet these tests will determine the fate of the real estate industries. Indeed, the future of the housing industry will remain hostage to the existing federal budget deficit until it is dramatically reduced.☐

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[1] *"Do Federal Deficits Really Matter?" by James R. Barth, George Iden, and Frank S. Russek.*

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

November 15, 1984

If the current economic expansion follows the precedent set by most of the other post-World War II recoveries, then a recession does not appear to be imminent. The present economic slowdown can then be viewed as a pause before growth restabilizes at a moderate pace. After growing at an extremely high rate during the first half of 1984, the real gross national product (GNP) in the third quarter slowed to a much more gradual, but sustainable, 2.7 percent annual rate of growth. This decline can be attributed to a slowdown in consumer and business demand and the continued poor showing of the trade sector of the economy.

A number of variables reflect the drop in consumer and business demand. For instance, both new orders for durable goods and factory orders have declined for the last two months. Following a 0.9 percent drop in August, durable goods orders fell 4.3 percent in September. Although factory orders did not fall as steeply, they did decline by 0.8 percent in August and 1.8 percent in September. Some, but not all, of the drop in durable goods orders can be blamed on the brief automobile strike, because orders for these goods were already relatively weak. In addition, industrial production eased downward by 0.7 percent in September.

The other major contributor to the drop in the GNP has been the huge imbalance in the trade sector. Although exports rose in September, imports rose even faster, bringing the merchandise trade deficit to $12.6 billion for the month. Thus, for the first nine months of the year, the trade deficit is almost $100 billion; for the year it could amount to about $130-$140 billion. The major reason for this unfavorable balance of trade is the extremely strong dollar. It has caused imports to the United States to be relatively less expensive than domestically manufactured goods, and our exports relatively more expensive abroad. Domestically, this trade imbalance has resulted in a drop in production; thus a larger portion of the demand for goods and services is being met by imports.

Commensurate with the economic slowdown, there has been a drop in yields across a broad spectrum of securities and lending markets. Between September 27th and November 7th, the prime rate was reduced four times. During this period, it fell from 13.0 percent to 11.75 percent, or 125 basis points. In addition, yields on both Treasury bills and long-term securities fell, with the drop in short-term instruments more pronounced. A third set of rates that are declining are mortgage rates. According to Freddie Mac, in late October the average interest rate on conventional, fixed-rate mortgages was 14.05 percent. This is a 21 basis point drop from the 14.26 percent figure reported a month earlier, and it is the lowest rate on this type of mortgage since May of this year.

For the remainder of the fourth quarter, interest rates are expected to continue to decline slightly. This is due to the softening in the demand for credit that is associated with the current slowdown in economic activity and the expectation that if it has not done so already, the Fed will ease monetary policy. However, when the economy begins to pick up again in the first quarter of 1985, there will be a corresponding increase in interest rates. Most probably, this increase in rates will be caused by a reversal of the same factors that brought about the recent declines.

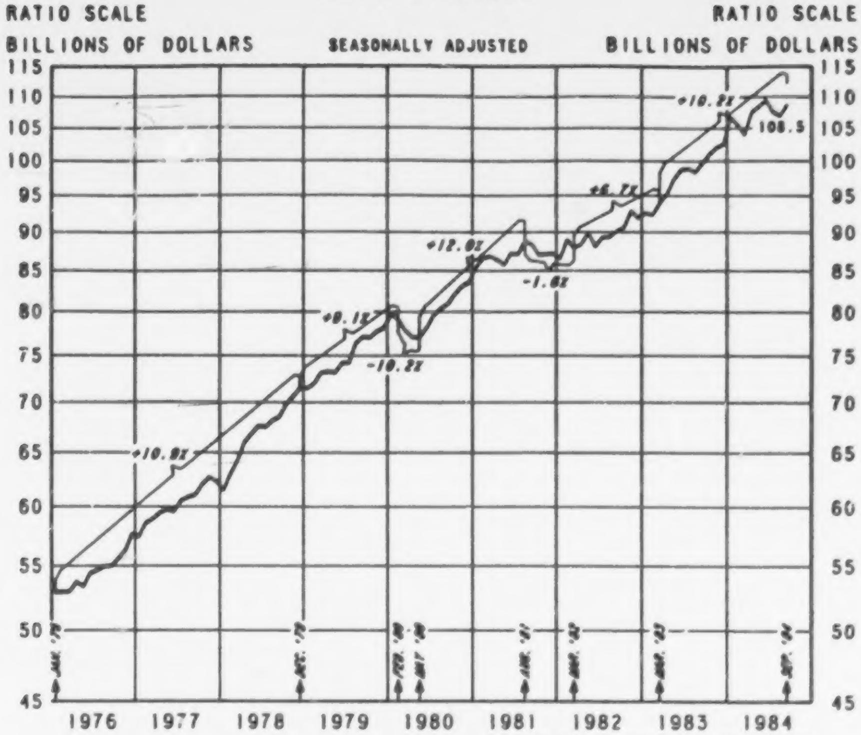
Although the trade sector is not expected to improve in the near future, a number of other economic statistics seem to portend that the overall economy is maintaining its underlying strength and will grow somewhat faster in the first quarter of 1985. For example, after three consecutive monthly declines, the index of leading indicators rose 0.4 percent in September. Six of the 11 available components increased for the month. Most importantly, the slowdown in vendor performance could mean that goods' orders are increasing. Another variable that has shown some improvement is retail sales. Following a substantial 1.2 percent increase in September, retail sales showed almost no movement in October, dropping a slight 0.1 percent. However, this lack of growth can be viewed as an aberation caused by unseasonably warm fall weather.

Another area that has recently shown some improvement is the housing sector. The big news is the huge increase in new home sales in September. For the month, sales of new, single-family homes rose by 22 percent, bringing sales to a seasonally adjusted annual rate of 679,000. Most of this rise reflects a last-minute surge in revenue bond financing, but it is also due to a decline in interest rates. In addition, housing starts also rose markedly, or by 9.0 percent in September. This rise leaves housing starts at a seasonally adjusted annual rate of 1.7 million units, almost the same figure that was reported in September, 1983. A last promising note is that spending on new construction rose 1.1 percent in September. Although this increase is not large, it is the first substantial gain in this area in four months.

Even though new home sales and starts are not likely to remain at their present levels, it is hoped that these increases will act as a stimulant to the housing industry. This extra push should mean that the housing sector will register about the same in 1984 as it did in 1983. In addition, this promising finish could get housing off to a good start in 1985. This in turn could enhance overall economic growth, possibly bringing it up to the 3.0-3.5 percent range for the first quarter of 1985.

Robert M. Rosenblatt
Assistant Economist

RETAIL SALES

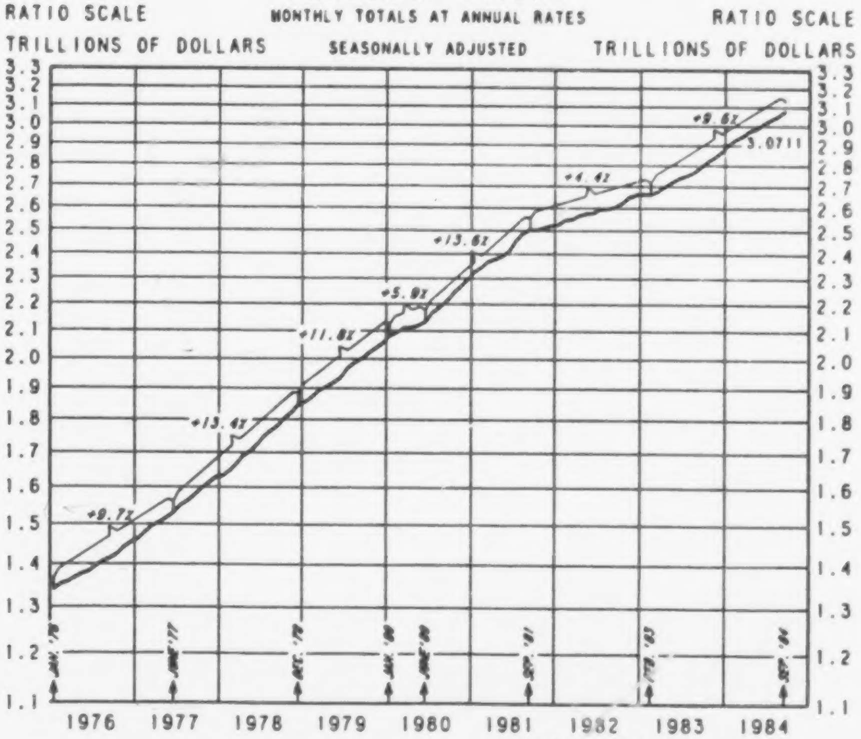


SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: AUGUST, SEPTEMBER ADVANCE ESTIMATE

PERSONAL INCOME



SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: SEPTEMBER PRELIMINARY

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—DECEMBER 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	146	102	44	1,539	1,042	497
SEPp	126	79	47	1,424	948	476	148	100	48	1,676	1,123	553
9 months												
1984	1,280	819	462				1,370	943	427			
1983	1,229	799	429				1,300	918	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
JUN	147,929	65,797	$22,124	$60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,558	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,724	74,087	30,932	74,705
AUG	181,819	71,975	33,185	76,659
SEPp	185,656	70,124	34,619	80,913

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	341	6.7
AUG	273	49	349	7.3
SEPp	216	55	347	6.5
9 months				
1984	2,250	506		
1983	2,115	479		
1982	1,462	297		
1981	1,909	345		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	19	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	35	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	23	67	35	183	224	734	398
SEPp	17	18	57	34	176	171	688	389	19	23	69	36	186	235	824	431
9 months																
1984	142	158	624	356					146	187	692	346				
1983	125	143	663	298					128	167	712	293				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,127	671	456	150	107	43
SEPp	1,131	666	465	145	105	40
9 months						
1984				1,207	834	373
1983				976	713	263
1982				714	522	211
1981				945	703	243

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional							Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.			10-yr.	26-wk.			
1983																
JUN	12.96%	13.38%	13.38%	12.36%	12.67%	14.00%		12.480%	13.163%	12.03%	11.87%	10.85%	8.89%	9.00%	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	n.a.	n.a.	n.a.	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	n.a.	78

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
JAN	$15,616	$4,710	$ 4,755	$ 5,371	$ 780	$10,695	$3,880	$ 3,621	$3,146	$ 54	$1,532	$650	$ 529	$312	$ 45	$3,389	$180	$ 605	$1,913	$ 757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUGp	n.a.	3,450	n.a.	n.a.	n.a.	n.a.	2,990	n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	n.a.	n.a.	460	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
FEB	$ 69,199	$18,840	$25,677	$14,965	$ 9,717	$16,887	$6,460	$ 7,271	$2,086	$1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	n.a.	8,570p	n.a.	n.a.	n.a.	n.a.	3030p	n.a.	n.a.	n.a
SEP	n.a.	n.e.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
FEB	138	96	42	62	$3,607	17	$ 795	15	$ 961	30	$1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
JAN	$2,006	$2,045	$15,464	$1,082	$2,004	$2,059	$1,479	$1,641	$4,593	$2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
JAN	$100	$ 50	$20	$ 30	$280	$120	$ 60	$ 30	$130
FEB	150	60	30	60	280	110	60	60	110
MAR	170	80	20	70	540	180	50	190	170
APR	130	50	10	70	290	150	60	610	80
MAY	320	160	40	120	470	130	160	80	260
JUN	430	170	60	200	500	130	120	90	280
JUL	120	60	10	50	180	80	40	30	70
AUG	110	70	10	30	200	120	80	20	60
SEP	160	70	20	60	440	100	50	60	280
OCT	130	60	20	50	350	90	90	140	120
NOV	140	70	10	60	390	150	90	120	120
DEC	570	180	50	340	560	130	250	190	240
1984									
JAN	180	70	20	90	460	130	140	100	230
FEB	150	70	10	70	280	80	90	90	110
MAR	190	80	30	80	350	120	220	80	150
APR	200	90	30	80	620	140	100	360	120
MAY	180	80	10	10	420	190	160	130	100
JUN	380	120	10	250	760	120	360	180	460
JUL	280	70	10	200	790	130	180	210	450
AUG	100p	50p	10p	40p	410p	110p	80p	120p	170p
SEP	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				Total	NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			Non-Res.[3]
	Total[2]	1-4 Units	5+ Units	Non-Res.[3]		Total	FHA	VA	Conv.	Total	FHA	Conv.	
1982													
SEP	$2,360	$2,070	$ 70	$ 170	$ 2,280	$ 2,090	$ 700	$ 490	$ 900	$ 50	$ 10	$ 40	$ 140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,680	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUGp	3,010	2,530	0	470	3,450	2,990	510	360	2,120	0	0	0	460
Year to Date[5]													
1984					$37,680	$31,730	$ 7,370	$5,100	$19,260	$1,830	$ 50	$1,780	$4,110
1983					45,400	38,840	15,480	9,300	14,060	3,240	720	2,520	3,320
1982					16,160	13,080	4,160	2,410	6,510	860	400	460	2,220
1981					24,070	18,550	6,370	4,750	7,430	1,290	720	570	4,240

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
SEP	$ 4,240	$ 3,970	$ 60	$ 210	$ 4,870	$ 4,360	$ 130	$ 380	$ 8,030	$ 1,100	$ 670	$ 7,960	$ 1,750	$ 840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUGp	3,030	2,770	0	260	4,090	3,320	10	760	8,070	40	460	7,660	210	1,470
Year to Date														
1984	$34,480	$28,770	$ 50	$5,700	$39,380	$30,600	$2,800	$5,980						
1983	56,390	49,400	3,020	3,970	56,580	46,920	3,480	6,180						
1982	23,420	16,740	1,600	5,080	26,440	19,300	1,680	5,460						
1981	27,470	23,100	590	3,780	33,090	23,520	1,070	8,500						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] · COVERAGE[4] · SERVICING VOLUME[1]

Year and Month	Total	1-4 Units				5+ Units				Coverage[4]			Servicing Volume[1]		
		Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982															
SEP	$ 8,360	$4,080	$1,010	$ 660	2,410	$3,240	$190	$3,050	$1,040	66%	40%	49%	$236,860	$28,660	$40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUGp	7,140	5,320	980	650	3,690	710	0	720	1,100	57	28	94	282,000	39,930	38,740

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
SEP	$110	$ 40	$20	$ 50	$ 40	$320	$ 80	$130	$110	$2,740	$ 690	$ 670	$1,380	$ 630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	[illegible]	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	[illegible]	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUGp	100	50	10	40	80	410	110	130	170	2,150	740	190	1,220	800

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] · NOTES PAYABLE[1]

Year and Month	Issued During Month				End of Month Balances				Notes Payable[1]: End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
SEP	$ 660	$ 90	$ 430	$ 140	$ 6,180	$ 980	$ 2,730	$2,470	$12,190	$2,080	$ 6,130	$ 3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,010
JUL	1,730	130	60	1,540	,090	870	470	2,750	41,960	6,190	12,710	23,060
AUGp	750	200	80	460	3,540	900	460	2,180	47,770	5,450	13,010	29,310

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Volume 45 No. 4
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8 Economic Forecast 52 Homeownership 67 Usury

Economic Forecast for 1985
Dr. Thomas R. Harter 8

Mortgage Prepayments: The Regional Difference
Michael Waldman, Henry S. Peltz, and Nicole Lowen 25

Banking on Energy
Charles V. Hardwick, Jr. 40

The House As An Investment: As Attractive As Ever?
Daniel Durning and Michael S. Salkin 52

Usury Still An Issue In Mortgage Lending
Joseph Philip Forte 67

The Last Word (Tomorrow's Economy)
Daniel A. Blumberg 73

Index of 1984 *Mortgage Banking* Articles 80

About This Issue 5
People 91
Books 101
Advertisers Index 102
Mortgage Market Trends 105

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MORTGAGE PREPAYMENTS:
THE REGIONAL DIFFERENCE

Michael Waldman
Henry S. Peltz
Nicole Lowen

The yield on a discount mortgage security or whole loan portfolio depends directly on the prepayment rate of the underlying loans. Faster prepayments will accelerate the realization of discount on these loans and thus enhance their rates-of-return. Thus, managers can seek to improve a portfolio's yield by increasing its overall prepayment rate. One way to do this is to consider the location of the underlying loans in making investment choices.

In a recent study, Salomon Brothers examined regional differences in mortgage prepayments. In particular, the prepayment rates[1] of seasoned discount conventional mortgage-backed securities were classified by state. The results show that prepayment rates vary considerably for different areas of the country. Regional differences in economic conditions, migration patterns, homeowner mobility, and lending practices can lead to mortgage prepayment rates significantly above or below national averages. In addition, these relationships can change markedly over time.

The state prepayment statistics are based on a combined universe of Federal Home Loan Mortgage Corporation (FHLMC) Guarantor Participation Certificates (PCs) and Federal National Mortgage Association (FNMA) passthroughs. In this analysis, each pool has been classified according to the location of the thrift, bank, or mortgage banker that originated the pool. It should be realized that this method is somewhat imperfect. In recent years, the mortgage lending activities of many of these companies have spread far afield from their home bases, in large part because of interstate mergers and acquisitions and expansion by thrifts into mortgage banking activity. Our analysis indicates that this identification of pool location

continued

with the seller/servicer's home state is currently about 85-90 percent accurate.

Results

Prepayment rates are shown semiannually for 1982, 1983, and the first 10 months of 1984 in Figure 1 for the 10 states with the largest outstanding amount of seasoned discount FHLMC and FNMA pools. The Figure indicates that the differences in prepayment rates between states are significant. Among these states, Texas has exhibited the fastest prepayment rates during the past three years, and Washington the slowest, with a difference between them for the past 10 months of more than 3 percentage points. The two states with the largest amounts of mortgage pools outstanding—California and Florida—have shown prepayment rates slightly below the national average for the past 10 months.

Prepayment rates for all states with at least $200 million in mortgage pools outstanding are displayed in the Appendix; this more detailed table shows that prepayment rates in many cases follow a regional pattern. For example, in addition to Texas, the nearby states of Oklahoma, Missouri, Arkansas, and New Mexico have produced above-

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Figure 1.

Prepayment Rates for 10 States with the Largest Amount of Mortgage Pools Outstanding (Seasoned Discount FHLMC Guarantor PCs and FNMA Pass-Throughs[a])

		Prepayment Rate						
		1982		1983		1984		
State	Amount Outstanding[b]	Jan-June	Jul-Dec	Jan-June	Jul-Dec	Jan-June	July-Oct	Year to Date
Texas	$3,414	5.9%	5.2%	6.2%	8.5%	7.5%	7.7%	7.5%
Illinois	3,679	3.3	3.0	4.9	7.9	6.7	8.8	7.5
Pennsylvania	2,498	—	4.1	5.6	7.7	6.2	7.8	6.8
Maryland	1,727	—	2.6	4.7	7.0	6.3	6.8	6.5
Florida	4,564	2.5	3.5	4.4	6.2	6.4	6.1	6.3
Ohio	2,774	3.4	3.7	5.4	7.2	6.2	6.6	6.3
New Jersey	1,773	—	2.9	5.2	6.6	5.6	6.7	6.1
California*	13,389	1.2	2.2	3.9	5.9	6.3	5.7	6.0
Michigan*	2,674	—	2.3	2.8	4.8	4.6	5.7	5.1
Washington*	1,841	—	1.8	3.2	4.3	4.3	4.4	4.3
National Total	$59,193	3.1%	3.2%	4.6%	6.6%	6.2%	6.7%	6.5%

[a] *Conventional mortgage pools outstanding for two or more years with coupon rates at or below the prevailing current coupon; minimum $200 million outstanding.*

[b] *As of October 1984; dollars in millions.*

**Window state.*

national-average prepayment rates during the past two years.

Aside from general influences on national housing activity, a state's prepayment rate will depend on the local social, economic, housing, and legal climate. To illustrate the impact of these factors, the four key states of Texas, Washington, California, and Florida were examined. The unemployment rate and the growth of personal income—two factors that heavily influence local housing affordability—and the growth rate of single-family housing stock are indicated for these states in Figure 2.

Texas

For the past few years Texas has produced prepayment rates consistently above the national average, reflecting a strong economy and a robust housing market (see Figure 3). Judging by unemployment statistics, Texas escaped the 1981-82 recession to a greater degree than did other states. In 1983-84, the Houston market suffered from declines in oil prices, but the statewide economy continued to show strength. Despite a slowing in personal income growth (on a relative basis), Texas still recorded a low unemployment rate and a rapid growth in new home construction fueled in part by strong migration to the state.

Washington

At the other end of the scale, prepayment rates for the state of Washington were substantially below the national average throughout the 1982-84 period (see Figure 4). This pattern can be explained by economic conditions. Because Washington has a heavy concentration in the aircraft and forestry industries, coupled with airlines and housing being in a severe recession during 1981-82, the state's unemployment rate soared, and personal income growth plummeted. During 1983-84, the state's economy only partially recovered. Housing market activity suffered much more than the national average in this economic environment.

Figure 2.

Prepayment Rates and Selected Economic Statistics (Dollars in Millions)

		Prepayment Rate			Unemployment Rate[a]			Growth in Personal Income[b]			Growth in Housing Stock[c]		
State	Amount Outstanding[d]	1982	1983	10 Mos. 1984	1982	1983	July 1984	1982	1983	June 1984	1982	1983	Nine Mos. 1984
TX	$ 3,414	5.5%	7.3%	7.5%	6.9%	8.0%	6.3%	8.2%	5.4%	9.8%	2.2%	2.8%	2.5%
WA	1,841	—	3.7	4.3	12.1	11.2	9.0	4.2	5.5	5.7	1.0	1.6	1.7
CA	13,389	1.7	4.9	6.0	9.9	9.7	8.4	6.4	7.3	8.9	0.9	1.8	2.1
FL	4,564	3.0	5.3	6.3	8.2	8.6	6.8	8.0	8.3	12.1	2.4	4.3	4.6
National Total	$59,193	3.2%	5.6%	6.5%	9.7%	9.6%	7.4%	6.0%	6.2%	9.6%	1.0%	1.5%	1.6%

[a] *Civilian unemployment rate, not including armed forces. Source:* Employment and Earnings, *U.S. Bureau of Labor Statistics.*

[b] *Annual percentage change of personal income. Source:* Survey of Current Business, *1982 and 1983, U.S. Bureau of Economic Analysis; for June 1984,* Business Week, *October 15, 1984.*

[c] *Defined as the number of one- to four-family building permits issued divided by one- to four-family housing stock in 1980. Source:* Housing Units Authorized by Building Permits and Public Contracts, *selected months, and* 1980 Census of Housing: U.S. Summary, *U.S. Bureau of the Census.*

[d] *As of October 1984; dollars in millions.*

continued

Figure 3.

Prepayment Rates by State—Texas

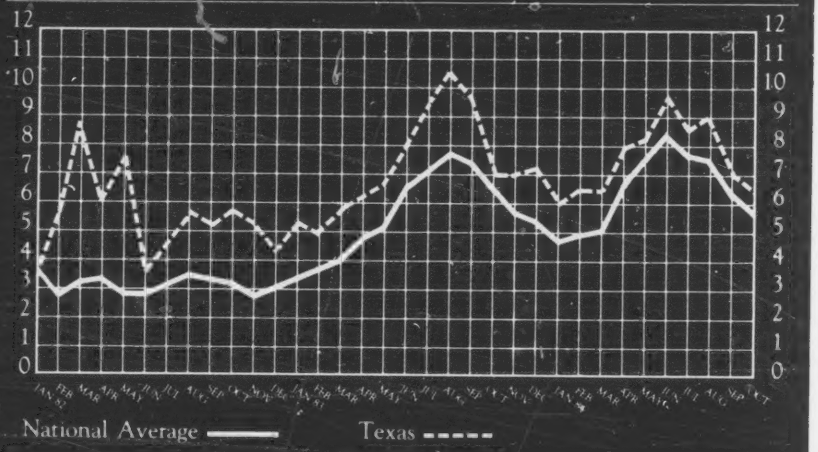
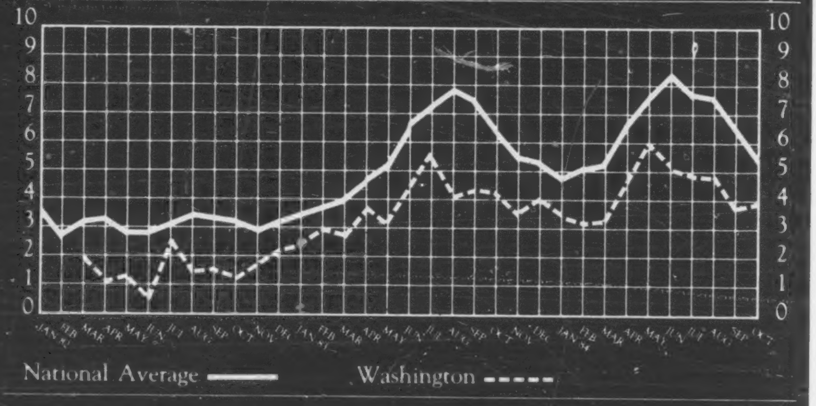


Figure 4.

Prepayment Rates by State—Washington



In addition, adjustable rate mortgages (ARMs) were widely offered somewhat later in the Pacific Northwest than in other areas of the country.

California

Figure 5 shows prepayment rates for California, which represents about 23 percent of the total amount of outstanding mortgage pools (when pools are classified by the location of the seller/servicer). Prepayment rates for this state fell to extremely low levels in 1982 when the combination of high mortgage interest rates and inflated real estate prices crippled the California housing market. Furthermore, with a state restriction on the enforcement of mortgage due-on-sale clauses, homeowners often let prospective buyers assume existing loans under various forms of "creative financing." Consequently, many homes were sold without the existing mortgage loan being prepaid.

With economic recovery, preemption of the restriction on the enforcement of due-on-sale for federally insured thrifts, and aggressive origination of low, initial rate ARMs by lenders, California prepayment rates recovered to the level of the national average in the first half of 1984. These rates fell off somewhat in the July to October period.

Florida

Prepayment rates for Florida have closely tracked the national average figures (see Figure 6). Florida has enjoyed a strong economy during the past few years. The state has had one of the highest growth rates in personal income, and its housing stock has expanded rapidly to accommodate the strong housing demand generated by in-migration. Florida was second only to Texas in terms of in-migration during 1980-82. The fact that Florida mortgage prepayment rates have not exceeded the national average may be partly explained by its large elderly population, which tends to have low mobility. In 1982, 17.4 percent of Florida's popula-

continued

Figure 5.

Prepayment Rates by State—California

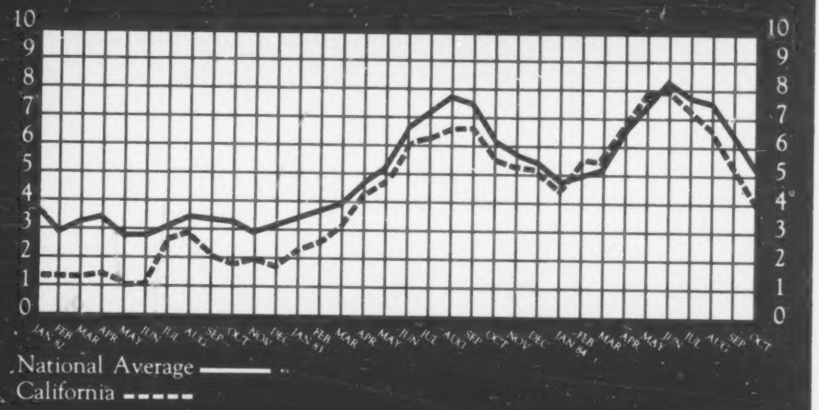


Figure 6.

Prepayment Rates by State—Florida

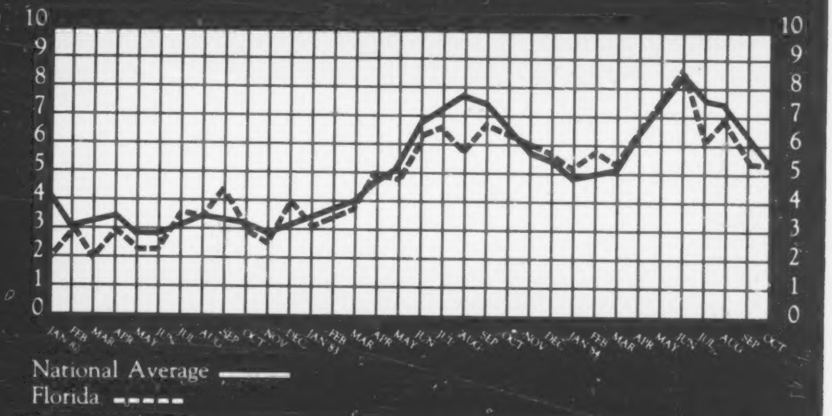


Figure 7.

Window Period States, Window Periods, and Transferability Periods

Window Period States[a]	Window Period	Transferability Period[b]
Arizona	July 8, 1971-October 15, 1982	Through October 15, 1987
California	August 25, 1978-October 15, 1982	Through October 15, 1985
Colorado	July 1, 1975-October 15, 1982	Through October 15, 1985
Georgia	July 1, 1979-October 15, 1982	Through October 15, 1985
Iowa	July 1, 1979-October 15, 1982	Through October 15, 1985
Michigan	January 5, 1977-October 15, 1982	Through October 15, 1985
Minnesota	June 1, 1979-May 8, 1981	Through October 15, 1985
New Mexico	March 15, 1979-October 15, 1982	Through October 15, 1985
Utah	May 12, 1981-October 15, 1982	Through October 15, 1985
Washington	August 19, 1976-October 15, 1982	Through October 15, 1985

[a] *All window periods apply to single-family mortgages, except for California, Colorado, and Washington, which are window period states for single and multifamily mortgages.*

[b] *The transferability periods for window period loans originated by federally chartered credit unions and national banks expired on November 18, 1982 and April 15, 1984, respectively, by actions of the National Credit Union Administration and the Comptroller of the Currency.*

Source: Federal Home Loan Mortgage Corporation.

tion was 65 years of age or older, far exceeding the 11.6 percent U.S. average.

Due-on-sale enforcement

Prepayment rates are affected by lenders' enforcement of due-on-sale clauses, which permit acceleration of a mortgage loan if the borrower sells the property. Both FNMA, from the inception of its pass-through program, and FHLMC, since July 1, 1983, have required that servicers of their pools enforce due-on-sale clauses when legally permitted.

The Garn-St Germain Act of October 15, 1982 preempted state laws that prohibited the enforcement of due-on-sale clauses and removed all such restrictions on loans originated by federally chartered savings and loans and federally chartered savings banks (reinforcing a decision of the Supreme Court of June 28, 1982 on the latter). However, the Act also provided that existing state restrictions on due-on-sale enforcement would remain in effect for state-chartered institutions for loans originated during a "window period." The window period extends from the initiation of the state restriction to October 15, 1982 (or the date the state terminated the restriction, if earlier). The states with such restrictions and the applicable window periods are shown in Figure 7.

For these states, mortgages in pools originated by state-chartered lenders during the window period will be assumable until October 15, 1985, unless this date is accelerated or extended. It should be realized that even for the "window states," due-on-sale clauses for mortgages in pools originated by federally chartered lenders can be enforced.[2]

Figure 8 compares the combined prepayment rate for the 10 window states with that of all other states since January 1982. The latter are significantly higher than the window state rates throughout the period. While the magnitude of this difference reflects a variety of factors, the chart suggests that enforceability of due-on-sale has had a significant impact on prepayment rates.

continued

Because due-on-sale clauses will be generally enforceable after October 1985, some pickup in prepayment rates for the window states may be expected after this date.

Prepayments may also be affected by other state restrictions, such as the homestead exemption in Texas that provides that a homeowner may only refinance a mortgage to raise funds up to the original principal amount. However, home sales have been a much more important source of prepayments of seasoned, low-rate loans than such refinancings, as indicated by Texas' fast prepayment rates during the past two-and-a-half years.

Pool classification

Each mortgage pool has been classified according to the location of the lender that originated the pool. The accuracy of this classification was examined in two ways. First, detailed information is available on the location of the property underlying all FHLMC Guarantor pools issued since July 1983; these pools comprise $15.5 billion in outstanding principal and represent 35 percent of the total FHLMC Guarantor market. We found that for 92 percent of the loans in these pools, the property is located in the seller/servicer's home state—that is, the loans are classified correctly.

In addition, the data show that 24 percent of the pools were put together by lenders that had originated pools in more than one state. For these multistate seller/servicers, 66 percent of the loans are located in their home state.

Second, a survey was conducted of the 80 largest seller/servicers for FHLMC Guarantor pools and FNMA pass-throughs. The sample included 35 percent of the $40-billion FHLMC Guarantor universe and 60 percent of the $23 billion total of FNMA pools[3]. The surveyed companies were asked whether all the properties underlying the mortgage pools they originated were located in their home state (single state), or whether some loans were located in another state or states (multistate).

continued

Figure 8.

Prepayment Rate Comparison

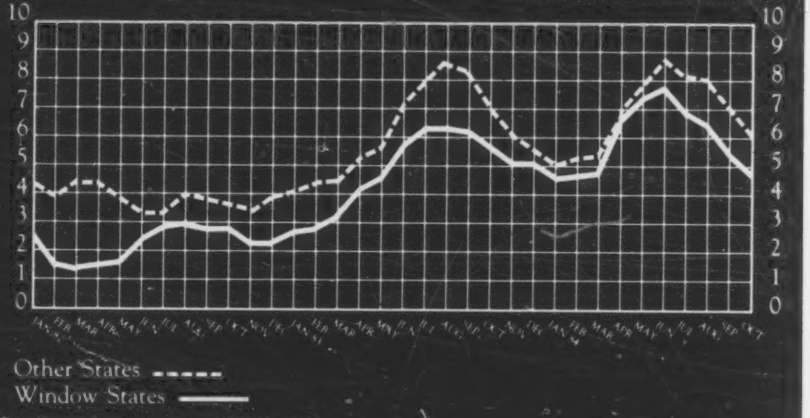


Figure 9.

FHLMC Guarantor Pools Issued Since July 1983

	Single State Seller/Servicers	Multistate Seller/Servicers	Total
Amount Outstanding*	$11,758	$3,706	$15,464
Percentage of Total	76%	24%	100%
Percentage Classified Correctly	100%	66%	92%

As of October 1984; dollars in millions.

REGIONAL DIFFERENCE

The results of the survey indicate that 28 percent and 34 percent of the FHLMC pools and FNMA pools, respectively, were originated by multistate seller/servicers. If it is assumed that 66 percent of the multistate seller/servicer loans are on properties in the lenders' home state (as in the recent FHLMC data), 90 percent of the FHLMC pools and 88 percent of the FNMA pools will be classified correctly. Because the trend toward industry diversification and multistate expansion is likely to continue, these percentages can be expected to decline over time.

The margin of error is probably greater for FNMA than for FHLMC pools, reflecting the heavier weighting of commercial banks and mortgage bankers, which tend to originate mortgages across a broader geographic area than thrifts. For the surveyed lenders, nonthrift companies originated more than twice the percentage of FNMA pools (20 percent) as FHLMC pools (9 percent) (see Figure 10).

Investment implications

The statistics presented here show that:

- Fairly wide differences in mortgage turnover rates existed between states for the 1982-84 period.
- While the prepayment rates of all states rose and fell with shifts in the national housing market climate, the differences between the states persisted.
- The underlying causes of these differences can be understood and analyzed in terms of each region's economic and demographic characteristics.

The significance of such regional patterns of prepayments to investors in discount mortgage-backed securities is that faster prepayments produce higher yields on these investments.

Figure 11 shows the yield on a pool of FHLMC 8s with 22 years remaining to maturity at a price of 78.5 for various prepayment rates. The prepayment rates shown are those experienced in the first 10 months of 1984 for all seasoned discount FHLMC Guarantor and FNMA pools, as well as for such pools in Texas and Washington.

Figure 10.

Salomon Brothers Survey of FHLMC and FNMA Seller/Servicers
(Amount Outstanding as of June 1984, Dollars in Millions)

	FHLMC			FNMA		
	Single State	Multi-State	Total	Single State	Multi-State	Total
Thrifts	$ 9,600	$3,409	$13,009	$7,783	$2,994	$10,777
Others	648	625	1,273	1,062	1,590	2,652
Total	$10,248	$4,034	$14,282	$8,845	$4,584	$13,429
Percentage of Total	72%	28%	100%	66%	34%	100%
Percentage Classified Correctly	100%	66%[a]	90%	100%	66%[a]	88%

[a] *Projected from data on recent FHLMC Guarantor pools.*

Figure 11.

Impact on Yield of FHLMC 8s
(22 years remaining to maturity, 78½ dollar price)

	First 10 Months 1984 Prepayment Rate	Mortgage Yield	Spread versus National Average
National Average	6.5%	12.51%	
Texas	7.5	12.75	24bp
Washington	4.3	12.00	−51

Appendix.

Prepayment Rates by State Plus the District of Columbia and Puerto Rico
(Seasoned Discount FHLMC Guarantor PCs and FNMA Pass-Throughs[a])

				1984					
State	Amount Outst[b]	1982	1983	1st Half	July	Aug	Sept	Oct	10 Mos.
Alabama	$ 333	—	—	6.4%	6.2%	7.9%	6.0%	6.1%	6.4%
Arkansas	555	—	7.1%	8.0	7.5	7.0	8.3	6.7	7.8
Arizona*	672	—	3.8	4.1	5.5	5.8	3.6	3.9	4.3
California*	13,389	1.7%	4.9	6.3	7.1	6.5	5.1	4.0	6.0
Colorado*	789	—	6.4	5.3	10.8	5.9	4.1	9.3	6.2
Connecticut	426	—	—	6.1	8.1	7.7	7.3	4.2	6.4
Dist. of Colum.	679	—	5.3	5.8	7.1	7.4	7.7	5.9	6.3
Florida	4,564	3.0	5.3	6.4	6.5	7.1	5.5	5.4	6.3
Georgia*	1,031	—	5.7	6.8	8.6	6.9	8.1	6.1	7.0
Illinois	3,679	—	6.4	6.7	10.0	9.2	9.4	6.5	7.5
Indiana	475	—	5.8	6.9	9.5	7.4	5.6	4.4	6.9
Iowa*	457	—	—	6.4	7.0	7.1	6.1	4.8	6.3
Kansas	691	—	5.6	7.1	8.3	8.9	9.3	7.1	7.6
Kentucky	512	—	6.9	7.2	6.9	8.6	9.1	6.3	7.4
Louisiana	521	—	—	5.4	8.1	6.1	4.5	4.8	5.6
Maryland	1,727	—	5.9	6.3	8.0	7.7	6.2	5.1	6.5
Massachusetts	1,035	—	—	5.6	8.2	7.8	5.1	6.8	6.1
Michigan*	2,674	—	3.8	4.6	6.0	6.0	5.5	5.4	5.1
Minnesota*	1,662	—	5.7	6.5	7.3	8.9	6.4	6.9	6.9
Missouri	920	—	8.0	7.5	12.2	11.5	7.2	6.3	8.3
Nebraska	390	—	8.6	7.1	8.7	8.9	8.7	6.6	7.5
Nevada	286	—	—	7.0	7.9	8.7	5.3	5.0	6.9
New Jersey	1,773	—	5.9	5.6	8.5	7.1	6.1	5.2	6.1
New Mexico*	480	—	7.6	7.6	6.8	6.2	5.7	4.4	6.9
New York	1,674	—	5.2	5.0	6.7	7.9	5.8	5.3	5.6
North Carolina	1,140	—	6.8	7.3	8.7	8.6	6.7	6.1	7.4
Ohio	2,774	3.5	6.3	6.2	7.3	7.0	6.1	5.8	6.3
Oklahoma	378	—	7.6	7.1	7.3	5.3	5.5	6.4	6.7
Oregon	607	—	3.5	5.7	6.2	6.3	4.9	4.1	5.6
Pennsylvania	2,498	—	6.6	6.2	9.1	8.4	6.9	6.6	6.8
Puerto Rico	315	—	—	3.2	3.0	3.7	3.8	1.8	3.1
Rhode Island	291	—	6.7	6.1	10.5	7.0	9.2	6.5	7.0
South Carolina	415	—	—	8.7	9.7	9.2	8.0	8.1	8.7
Tennessee	652	—	6.5	6.0	9.2	5.9	8.3	10.9	7.1
Texas	3,414	5.5	7.3	7.5	8.5	9.0	7.1	6.3	7.5
Utah*	364	—	4.6	5.9	6.4	4.7	6.0	4.9	5.7
Virginia	1,525	—	6.2	6.7	10.0	10.3	7.9	6.0	7.5
Washington*	1,841	—	3.7	4.3	4.9	4.8	3.8	4.0	4.3
Wisconsin	618	—	6.2	6.1	7.1	6.7	6.8	4.7	6.2
Total	$59,193	3.2%	5.6%	6.2%	7.6%	7.4%	6.2%	5.4%	6.5%

[a] *Conventional mortgage pools outstanding for two or more years with coupon rates at or below the prevailing current coupon; minimum $200 million outstanding.*

[b] *As of October 1984; dollars in millions.*

**Window state.*

continued

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WESTIN HOTELS

If prepayments occur at the national average rate of 6.5 percent, the FHLMC investment will generate a 12.51 percent mortgage yield. However, if prepayments match the 7.5 percent Texas prepayment rate, the yield would rise to 12.75 percent—24 basis points higher. On the other hand, if prepayments follow the slower 4.3 percent rate exhibited by the Washington pools, the yield would be only 12 percent—51 basis points less than the yield based on the national average prepayment rate. The differences in yield between these high and low figures is a sizable 75 basis points.

While the impact of regional prepayment differences on mortgage investment yields can be substantial, it should be understood that the recent prepayment differences displayed here may not be indicative of long-term patterns. Relationships have changed markedly over time, and, in some cases, even within the two-year-and-ten-month period covered in our study.

The roller coaster pattern exhibited by California illustrates this point—there was feverish housing activity and rapid mortgage prepayment rates in the late 1970s, a severe housing slump and extremely slow prepayment rates in 1981-82, and a recovery to national average prepayment levels by the beginning of 1984.

Nevertheless, the Salomon Brothers' study indicates the considerable differences that currently exist between the prepayment rates of different states. These results suggest that there is significant potential for improving the yield on a discount mortgage portfolio by selecting pools in more active prepayment areas. □

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[1] *The prepayment rate is the percentage of outstanding loans that terminate in a given period, expressed as an annual rate.*

[2] *For mortgages originated by state-chartered institutions that subsequently converted to federal charter, it is the status of the lender at the time the loan was made that controls.*

[3] *Excluding FNMA multiple lender pools and FHLMC relocation pools.*

BANKING

ON ENERGY

Charles "Vince" Hardwick, Jr.

Energy conservation benefits the homebuyer, builder, and lender. By reducing one of the homeowner's major fixed operating expenses—energy—conservation allows the homeowner to finance other expenses—a mortgage payment for example. Mortgage lenders therefore can take the borrower's increased borrowing capacity into consideration and permit higher debt-to-income ratios when underwriting the loan. These liberalized ratios allow more people to qualify (four to six million more according to Dow Chemical's recent promotional film), but should not increase the risk to the lender because they merely take into account proven savings. The builder also benefits because higher numbers of loan qualifications generate more sales.

Most of the energy-saver programs now in effect are the legacy of the fuel shortages and severe price increases of the 1970s. Reacting to these conditions, state and regional organizations developed building codes to set standards for energy efficiency in different types of structures. The federal government also became involved, setting the minimum property construction standards for Federal Housing Administration (FHA) and Veterans Administration (VA) residential homes. Partly in response to the perceived threat of government regulation, the housing industry, utilities, and private companies began to promote their own energy conservation programs. In the period between 1979 and 1982, to protect themselves from depressed sales, builders and lenders began to use these energy programs more extensively to increase loan qualifications and stimulate sales. Requiring energy-efficient buildings for lending is now standard procedure for the successful, forward-looking builder and lender.

Several conservation programs accepted by the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and direct lenders will be discussed. All these programs are based on the National Home Builders Association's Thermal Performance Guidelines (TPGs) for one- and two-family homes.

Thermal Performance Guidelines

The National Association of Home Builders (NAHB) was in the forefront of the energy-efficiency movement. It wanted to provide NAHB guidance for developing energy conservation programs but realized that such programs could not be successful without local initiative. In 1978, under the direction of Michael Bell, manager of NAHB's energy department, the Association established the Thermal Performance Guidelines (TPGs), a set of recommendations for insulation, glazing, water conservation, and other energy-saving components for more than 207 cities around the country. The standards consider the type of fuel used in each city, the average utility rates, and the cost of energy-saving materials and their installation. The goal of the TPGs is to maximize energy efficiency without significantly increasing the cost of the house. TPGs provided a common standard for energy efficiency that could be used nationwide but left organization and administration of particular programs in the hands of local Home Builders Associations. Some 12 to 14 Home Builder Associations are now promoting energy-efficient building in accordance with the TPGs, and some 26 to 30 have expressed interest in starting programs. The main obstacle to further expansion, as viewed by knowledgeable officials in the secondary market and building and manufacturing industries, has been the lack of consumer, Realtor, and lender awareness. Happily, the programs are becoming more visible as their success becomes more evident.

Program overview

E-7. Suburban Maryland Home Builders Association (SMHBA) started its E-7 program in 1979. The title "E-7" came from the initially projected, seven-year payback on investment from energy savings; the payback is even shorter today. The program recognizes

continued

ILLUSTRATION BY: STEPHEN WAGNER

Table 1

		(1) National Average Natural Gas Price	(2) Refiner & Gas Plant Operator Sales Prices of Petroleum Products to End Users Cents per Gal. Excl. Tax, No. 2 Fuel Oil	(3) Average Retail Electricity Prices for Privately Owned Utilities
1973	Average	1.29		2.54
1974	Average	1.43		3.10
1975	Average	1.71		3.51
1976	Average	1.98		3.73
1977	Average	2.35		4.05
1978	Average	2.56	40.0	4.31
1979	Average	2.98	51.6	4.64
1980	Average	3.68	78.8	5.36
1981	Average	4.29	91.4	6.20
	January	4.65	94.4	6.22
	February	4.69	95.0	6.35
	March	4.78	90.6	6.58
	April	4.86	85.0	6.72
	May	5.17	84.4	6.94
	June	5.20	85.1	7.08
	July	5.23	83.6	7.18
	August	5.23	86.3	7.22
	September	5.41	86.2	7.18
	October	5.66	89.8	7.21
	November	5.68	94.2	6.94
	December	5.74	93.9	6.71
	Average	**5.17**	**90.5**	**6.86**
1983	January	5.84	100.9	6.65
	February	5.85	97.0	6.73
	March	5.94	93.0	6.93
	April	6.04	89.1	6.91
	May	6.20	89.5	7.20
	June	6.18	87.3	7.41
	July	6.19	85.1	7.50
	August	6.16	86.1	7.52
	September	6.16	88.0	7.55
	October	6.08	89.0	7.50
	November	6.02	90.1	7.25
	December	6.03	92.1	6.97
	Average	**5.99**	**91.6**	**7.18**
1984	January	5.96	97.7	6.76
	February	5.99	104.6	6.98
	March	5.97	94.7	7.16
	April	5.98	91.9	7.32
	May	6.17	R90.0	7.58
	June	6.11	86.9	7.89
	July	6.15		

1) Monthly residential prices are Energy Information Administration calculations.

2) Sales for Resale are those made to purchasers who are other-than-ultimate consumers, that is, wholesale sales. Sales to End Users are those made directly to the ultimate consumer including bulk customers such as agriculture, industry, and utilities, as well as residential and commercial customers.

Preliminary estimate. R=Revised data NA=Not available

Notes:

•Geographic coverage is the 50 states and the District of Columbia.

•Data for 1973 through December 1982 are final. All other data are preliminary unless otherwise indicated.

3) Data through 1979 cover privately owned electric utilities in Classes A and B. Data for 1980 forward cover selected privately owned electric utilities in Class A whose electric operating revenues were $100 million or more during the previous year.

Source: Monthly Energy Review June 1984, Energy Information Administration.

builders whose residential structures incorporate prescribed levels of insulation and other energy conservation features that exceed mandatory building code requirements. Shortly after SMHBA compiled an E-7 manual, the Association was able to persuade the state of Maryland to accept E-7 standards as meeting or surpassing state building requirements. Some districts now accept an E-7 certification as proof that a house meets their standards without requiring additional documentation from the builder. As of November 1984, approximately 65 percent of SMHBA builders and 80 percent of the homes were E-7 certified. In Virginia, approximately 22 percent of the builders and 60 percent of the products are certified. E-7 homes are generally considered to be 20-40 percent more efficient than existing national housing stock.

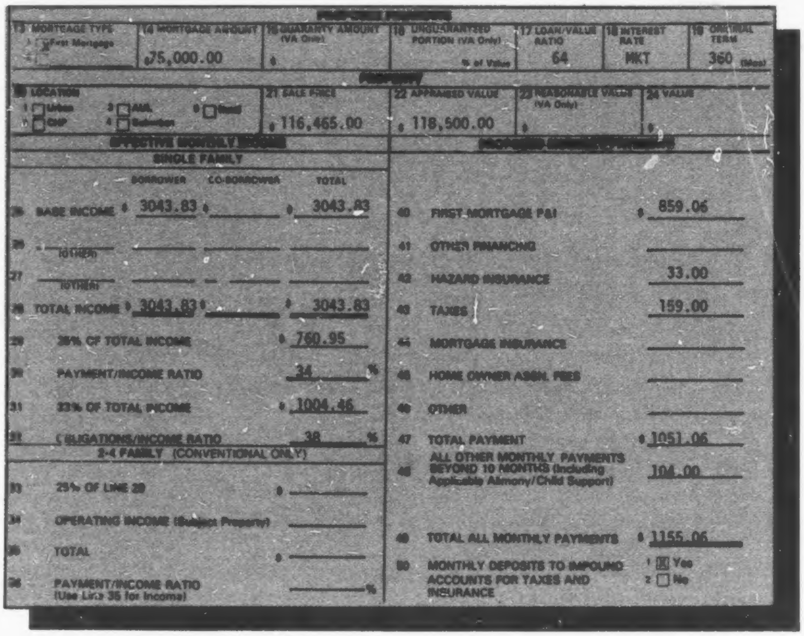
Enrollment into the program is simple and can be easily administered by the builder. To do so, a short application and an Indemnity Agreement Form must be submitted to the Builders Association. Each association's energy committees then consider the application and decide whether the energy conservation features listed for a given model meet the TPG standards for the appropriate geographical area. The associations' officers or staff in no way certify that any individual house has actually been constructed in compliance with those standards. However, the builder issues a certificate to the homeowner warranting that the home at a specific address and lot number was built in compliance with the association's E-7 Conservation Standard.

When a loan is applied for on an E-7 home, the builder presents the energy

continued

Charles V. Hardwick, Jr. is vice president of Nationwide Lending Group, Inc. in McLean, Virginia, a subsidiary of Hill Financial S.A. of Pennsylvania. He has been lending on E-7 houses for two and a half years and has promoted energy-saver programs both locally in the Washington metropolitan area and nationally.

Number 1
Case Study



14 MORTGAGE AMOUNT $75,000.00
15 GUARANTY AMOUNT (VA Only) $
16 UNGUARANTEED PORTION (VA Only) % of Value
17 LOAN/VALUE RATIO 64
18 INTEREST RATE MKT
19 ORIGINAL TERM 360 (Mos)

☒ First Mortgage

LOCATION
1 ☐ Urban
2 ☐ CHP
3 ☐ AML
4 ☐ Suburban
5 ☐ Rural

21 SALE PRICE $116,465.00
22 APPRAISED VALUE $118,500.00
23 REASONABLE VALUE (VA Only) $
24 VALUE $

EFFECTIVE MONTHLY INCOME
SINGLE FAMILY

	BORROWER	CO-BORROWER	TOTAL
BASE INCOME	$3043.83	$	$3043.83
(OTHER)			
27 (OTHER)			
TOTAL INCOME	$3043.83	$	$3043.83
28% OF TOTAL INCOME			$760.95
PAYMENT/INCOME RATIO			34 %
31 33% OF TOTAL INCOME			$1004.46
OBLIGATIONS/INCOME RATIO			38 %

2-4 FAMILY (CONVENTIONAL ONLY)

33 25% OF LINE 28 $
OPERATING INCOME (Subject Property)
TOTAL $
PAYMENT/INCOME RATIO (Use Line 35 for Income) %

40 FIRST MORTGAGE P&I $859.06
41 OTHER FINANCING
42 HAZARD INSURANCE 33.00
43 TAXES 159.00
44 MORTGAGE INSURANCE
45 HOME OWNER ASSN. FEES
46 OTHER
47 TOTAL PAYMENT $1051.06
48 ALL OTHER MONTHLY PAYMENTS BEYOND 10 MONTHS (Including Applicable Alimony/Child Support) 104.00
49 TOTAL ALL MONTHLY PAYMENTS $1155.06
50 MONTHLY DEPOSITS TO IMPOUND ACCOUNTS FOR TAXES AND INSURANCE 1 ☒ Yes 2 ☐ No

certificate, the appraisal, and the Freddie Mac Energy Addendum (Form 70A) to his lender for reference during loan processing. Debt-to-income ratios vary according to what the lender's loan committee is comfortable with, but average from 30/38 to 32/40 compared with the usual 28/36 for non-energy-efficient homes.

Watt Count—a private engineering company. Watt Count of Middle Tennessee, a private engineering firm, uses a somewhat different approach. They apply aerospace technology, the same techniques that allow NASA spacecraft to withstand extreme environmental conditions.

Watt Count began its program in the early 1970s. They now have letters from lenders as well as from the U.S. Department of Housing and Urban Development's Nashville, Tennessee office, agreeing to add $.75 to $1.00 per square foot to the appraised value of a house in consideration of improvements made under the Watt Count program. Obviously, this addition will allow larger loans and may encourage builders and consumers to construct and purchase energy-efficient homes. Watt Count feels so confident about its program that it will guarantee the consumers' heating and cooking bills or pay the difference.

VEPCO—A utility company's approach. Utility companies such as Virginia Electric and Power Company (VEPCO), Potomac Electric & Power Company (PEPCO), and Gulf Power are also operating energy-efficiency programs. Their motive is to reduce energy demand and thus delay having to construct costly new power plants.

VEPCO feels their program is special because VEPCO currently inspects homes and warrants to the lending community that they have been built according to the technical specifications of VEPCO's program. VEPCO also keeps records on all the homes in its computers so that lenders can verify what energy features are in a particular house.

VEPCO's program does run parallel to the NVBA and SMHBA E-7 Program, all based on NAHB TPGs, although it has its own higher energy standards on heating and air-conditioning equipment. VEPCO's objective is to get 20 percent acceptance by the marketplace for new homes' power connections. Now, it generally gets about 15 percent based on recorded utility hook-ups. Lenders that recognize the program use 3-5 percent higher debt-to-income ratios with 3-4 percent as the average. Thirty-three direct lenders as well as FHLMC have pledged to support VEPCO's approach.

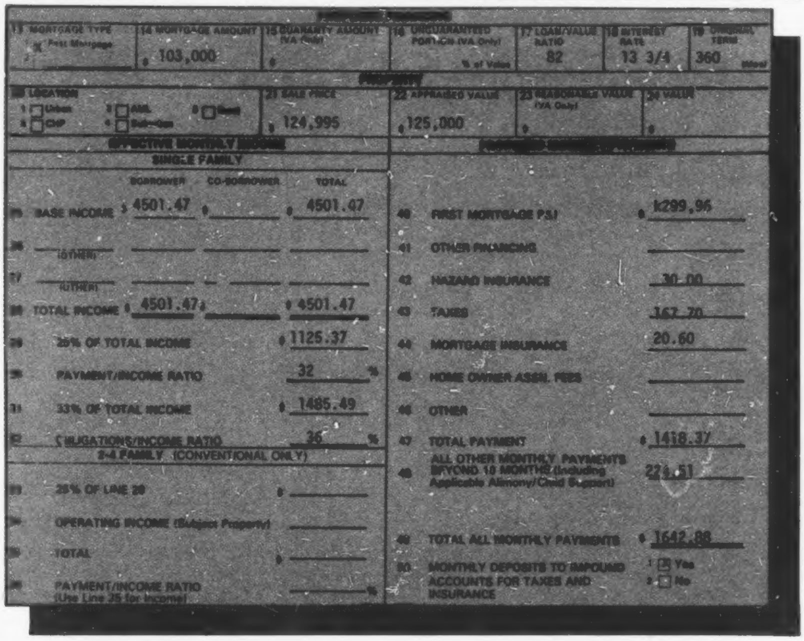
Owens/Corning Fiberglass—an insulation manufacturer. Owens/Corning Fiberglass Corporation markets the company's "Thermal Crafted Home" program to builders in the Midwest. Owens/Corning emphasizes training and will teach the builder to install the energy savings devices and the sales people to market the energy efficiency of the house. In selected cities, including Minneapolis and Kansas City, this helps the builder-client make a presentation to the lender, comparing minimum property-standards homes with Thermal Crafted Homes to convince the lender to increase debt-to-income ratios.

To determine eligibility for program membership, the company's technical representatives analyze the building plans for each model and enter the data into a computer pre-programmed for some 20 component items for every city in the country. If the builder's home meets their criteria, it is then able to use the name Thermal Crafted Home.

Western Resources Shelter Industry—a university program. Even universities have become involved in promoting energy-efficient building. Western Resources Shelter Industry Program is a non-profit corporation that grew out of Western Resources Center of the University of Washington in Seattle. It is a multi-faceted, industry-developed response to the impact of rising energy

continued

Number 2
Case Study



[illegible]

13 MORTGAGE TYPE 1 ☒ First Mortgage 2 ☐
14 MORTGAGE AMOUNT $ 103,000
15 GUARANTY AMOUNT (VA Only) $
16 UNGUARANTEED PORTION (VA Only) % of Value
17 LOAN/VALUE RATIO 82
18 INTEREST RATE 13 3/4
19 ORIGINAL TERM 360 (Mos)

PROPERTY

20 LOCATION 1 ☐ Urban 2 ☐ [illegible] 3 ☐ [illegible] 4 ☐ [illegible] 5 ☐ [illegible]
21 SALE PRICE $ 124,995
22 APPRAISED VALUE $ 125,000
23 REASONABLE VALUE (VA Only) $
24 VALUE $

EFFECTIVE MONTHLY INCOME

SINGLE FAMILY

		BORROWER	CO-BORROWER	TOTAL
25	BASE INCOME	$ 4501.47	$	$ 4501.47
26	(OTHER)			
27	(OTHER)			
28	TOTAL INCOME	$ 4501.47	$	$ 4501.47
29	25% OF TOTAL INCOME			$ 1125.37
30	PAYMENT/INCOME RATIO			32 %
31	33% OF TOTAL INCOME			$ 1485.49
32	OBLIGATIONS/INCOME RATIO			36 %

2-4 FAMILY (CONVENTIONAL ONLY)

33	25% OF LINE 28	$
34	OPERATING INCOME (Subject Property)	
35	TOTAL	$
36	PAYMENT/INCOME RATIO (Use Line 35 for Income)	%

[illegible]

40	FIRST MORTGAGE P&I	$ k299.96
41	OTHER FINANCING	
42	HAZARD INSURANCE	30.00
43	TAXES	167.70
44	MORTGAGE INSURANCE	20.60
45	HOME OWNER ASSN. FEES	
46	OTHER	
47	TOTAL PAYMENT	$ 1418.37
48	ALL OTHER MONTHLY PAYMENTS BEYOND 10 MONTHS (Including Applicable Alimony/Child Support)	224.51
49	TOTAL ALL MONTHLY PAYMENTS	$ 1642.88
50	MONTHLY DEPOSITS TO IMPOUND ACCOUNTS FOR TAXES AND INSURANCE	1 ☒ Yes 2 ☐ No

costs on the housing market. Nineteen major lenders, 450 appraisers, and over 200 underwriters in the Pacific Northwest have been convinced to use the Uniform Rating System. In September 1984, the project was selected to receive a national award from the U.S. Department of Energy for energy innovation.

The program offers formal training to loan underwriters and appraisers, provides materials for loan officers, and supplies internal operations guidelines, consumer marketing material, and training material for branch operators. The Federal Home Loan Bank Board of Seattle has become a major sponsor of the program and is working with lenders in the FHLB 12th district to encourage use of the Uniform Energy Rating System throughout the district.

The secondary market

Some direct lenders may still be uncomfortable with the higher debt-to-income ratios. Lenders will be glad to know that they do not have to take that risk alone. Both Freddie Mac and Fannie Mae have approached energy saving with enthusiasm and creativity (see Figure 1) to motivate builders and direct lenders to take advantage of efficient, cost-effective construction.

Freddie Mac & Fannie Mae. Freddie Mac began working on energy underwriting issues in 1979 because of its concern with rising energy costs and their impact on the qualifying ability and staying power of home purchasers. Freddie Mac was concerned about the increasing portion of the homeowner's budget that energy costs would represent. Freddie Mac felt that if it came down to mortgage payments vs. heating bills, the heating bills would be paid first. Because some builders were being forced by state and local building codes to put energy-efficient materials in homes, Freddie Mac thought that the lender should recognize the measurable and certifiably lower energy costs these improvements helped achieve. Otherwise, the costs of the additions would simply add to the price of the house and prevent the already marginally qualified buyer from getting a loan. Freddie Mac has therefore encouraged lenders to voluntarily take energy efficiency into account in underwriting loans.

Fannie Mae approaches energy savings like a pay raise and feels that, as such, only 28 percent of the savings should be applied toward the borrower's increased principal and interest payments. Fannie Mae is very enthusiastic in encouraging energy efficiency and feels comfortable with up to a 2 percent increase in debt-to-income ratios. Because of this 2 percent increase, the borrower's affordability has been enhanced markedly. Fannie Mae's procedure is special because it is easy for the direct lenders to follow and will provide some of the hand-holding that direct lenders have asked for. Fannie Mae's marketing department is beginning an aggressive promotional campaign for the purchase of energy-efficient home mortgages.

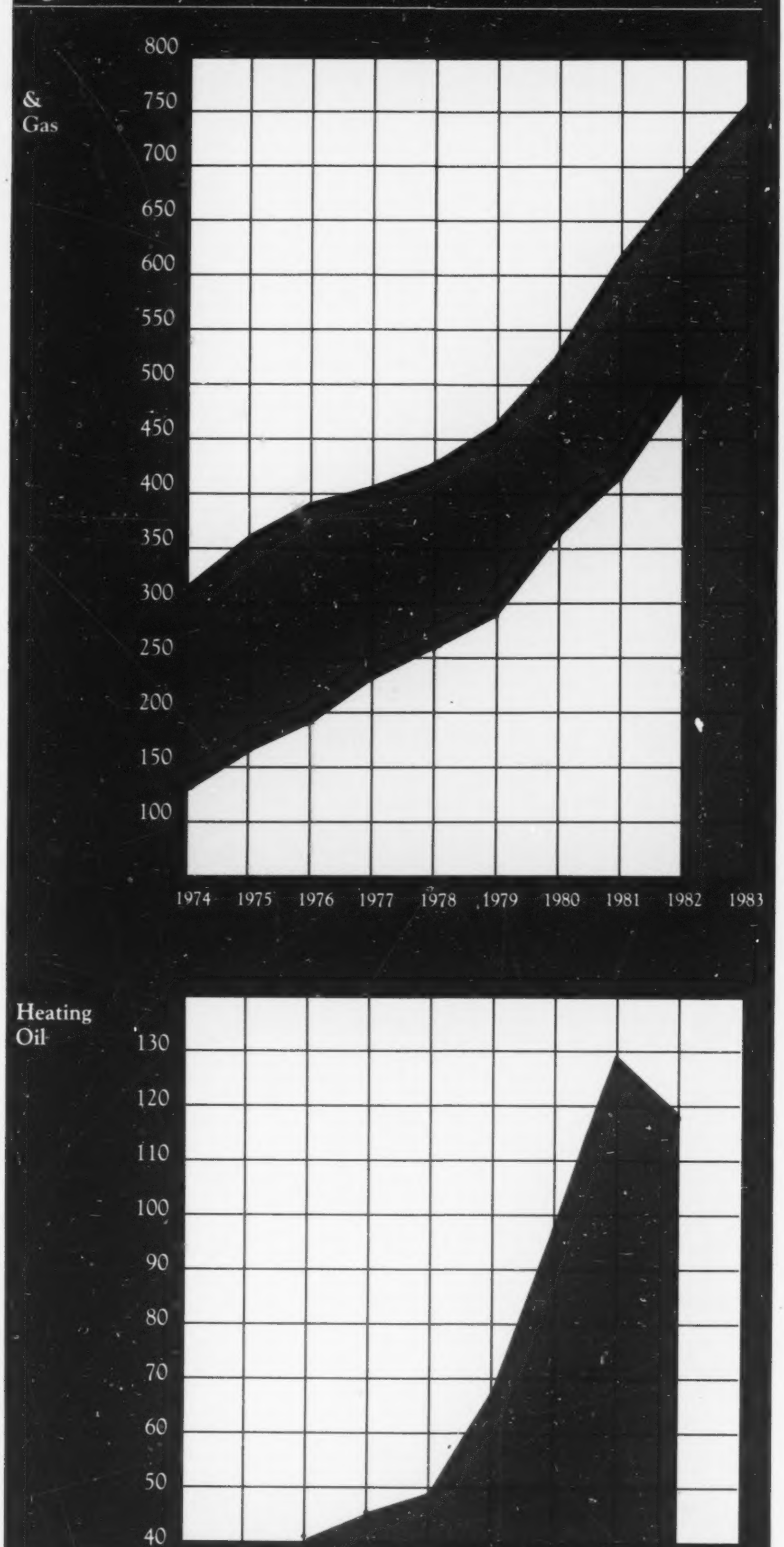
Selling to the secondary market

Freddie Mac and Fannie Mae will purchase all of these loans at the higher ratios, as long as the houses conform to NAHB's Thermal Performance Guidelines and normal underwriting guidelines have been followed. The procedure for selling a loan on a energy-efficient home to Freddie Mac and Fannie Mae is no more involved than for that of a non-energy-efficient home.

The sale of loans by preferred Freddie Mac sellers requires only a contract summary listing all loans, although the necessary documentation, including Freddie Mac Form 70A, must be in its file. No explanation of the higher ratios is needed at the time of sale. For non-preferred sellers, a prior approval submission is undertaken. This must be submitted before the purchase of the loan and should include the 70A Energy Addendum, the appraisal mentioning the energy qualities of the home, and the homebuyer's certificate, if any. Post-funding audits for preferred sellers consists of an in-depth review of the file for the same items as the non-

continued

Figure 1



preferred lender, i.e., the appraisal, 70A Energy Addendum, and any certificate that has been issued.

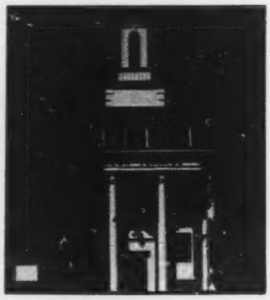
For Fannie Mae, either the Energy Addendum Form 70A or other evidence that the house was built in accordance with the NAHB TPGs is sufficient. Fannie Mae has indicated that it does not want to involve itself in the evaluation of specific energy programs.

Case studies

Two case studies (Figure 2) illustrate the advantage of buying an energy-efficient home. In the first case, a young couple purchased a $116,365 home in Montgomery County, Maryland—a suburb of Washington, D.C. They put down a deposit of $41,465. The husband was employed by a major computer company as an instructor. His gross monthly salary was $3,043 or $36,500 annually. A $75,000 loan was requested at market rates—at that time, 13.5 percent. The loan was approved in spite of ratios of 35/38 because the home was E-7 certified.

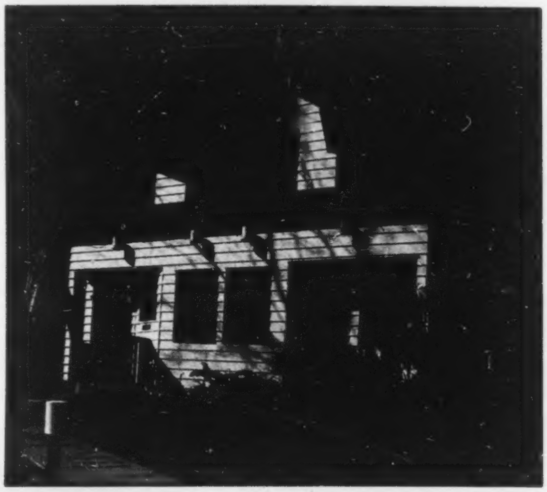
Another Maryland couple had their loan application approved under similar circumstances. The husband had eight years' experience in the computer business and was at that time controller of his company. His gross monthly income was $4,501 or $54,000 per year. The loan requested was $103,000 on a $124,995 purchase price. This home was also located in the Washington, D.C. metropolitan area. Market rates at the time of application were 13.75 percent. The downpayment was $21,995. The front ratio was 32, and the long-term debt ratio was 36. Again, Nationwide Lending Group's loan committee granted the loan because the home was a certified E-7 house.

These facts and figures about energy-saver programs are persuasive, but our actual experience with the programs has been even more convincing to us at Nationwide—and to many other lenders and builders. In the end, it is the happy customers, increased sales and lending volume, and investment-quality loans that have made energy conservation a valued part of the business. ☐



THE HOUSE AS AN INVESTMENT:

AS ATTRACTIVE AS EVER?

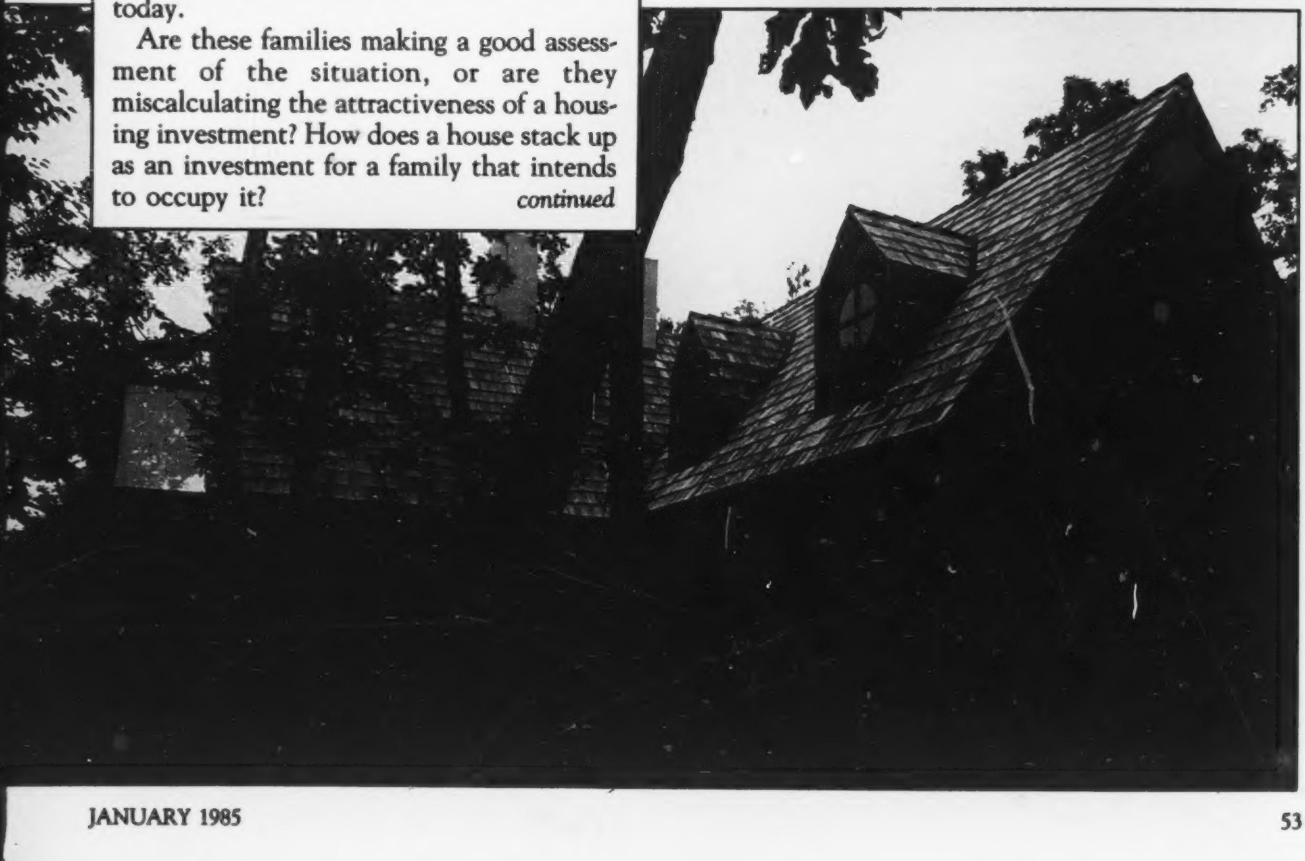


Daniel Durning
Michael S. Salkin

California's housing market has rebounded impressively from the recession that had cut deeply into house building and resales. The pace of the recovery and the continued strong demand for home ownership in the state reflect the belief of many families that buying a house is one of the best investments available today.

Are these families making a good assessment of the situation, or are they miscalculating the attractiveness of a housing investment? How does a house stack up as an investment for a family that intends to occupy it?

continued



House purchase as an investment

A house purchase is often considered as simply acquiring a shelter and its related amenities. There is, however, another important aspect of purchasing a house. The buyer is the consumer of housing services as well as the landlord. As landlord, the buyer pays the costs of acquiring the property and maintaining it. In return, the landlord gains or loses wealth as the value of the house rises or falls.

The house purchase consists of several elements that involve the owner as both occupant and landlord:

- *Housing services.* The owner-occupant receives the "services" provided by the house, neighborhood, city, and so on. If the family rented rather than owned the house, it would pay rent for these services. The value of the housing services consumed by the owner-occupant is often called "implicit rent."

If the owner-landlord did not reside in the house and instead were paid rent, the net rent (rent minus depreciation and maintenance) would be taxable. One of the advantages of being the landlord of an owner-occupied house is that the implicit rent is not taxed.

- *Deposit account.* The buyer as landlord makes a downpayment and pays off his mortgage loan on a regular basis. If the value of the house remains unchanged, the downpayment and principal payments are recouped by the owner when the house is sold. Many comments have been made on the value of this enforced deposit account, noting that it imposes a discipline often lacking when households try to save money by simply making deposits into standard savings accounts.

Table 1

The Internal Rate of Return on the Median-Valued House Purchased in California, 1960-1984*

Years of Ownership	Annual Internal Rate of Return
1960-67	10.9%
1970-77	31.6
1971-78	33.8
1972-79	37.6
1973-80	39.3
1974-81	39.7
1975-82	37.1
1976-83	36.7
1977-84	31.0

- *Investment return.* The investment return on a house purchase is heavily dependent on changes in the house value. With the high leverage obtained due to low downpayment requirements, even small increases in the value of a house are magnified into large investment returns when the house is sold.
- *Tax breaks.* The investment potential of housing is enhanced by the tax breaks associated with home ownership. The major tax breaks include the following: (a) the lack of taxation of net implicit rent, (b) the tax deductibility of interest and property tax payments, and (c) the taxation of the gain in house equity (upon sale of the house) as capital income, with the ability to avoid taxation of the capital gains if it is reinvested in another house of at least equal value, or if the owner is over 55 years of age.

Housing investment in California

The investment return on owner-occupied housing in California during the 1970s was extraordinary. To estimate the returns, internal rate of return (IRR) calculations were made for a "typical house" owned by a household with a median income.[1] To simplify these IRR calculations, several assumptions were made about the characteristics of housing market transactions.[2]

The annual investment return on the purchase of a house in California was about 10.9 percent for a house bought in 1960 and sold seven years later. This rate of return was attractive for the average household, though it was not spectacular. (See Table 1.)

In the 1970s, the annual returns on house purchases were spectacular, especially when the purchases were made prior to 1978. The annual IRR peaked at nearly 40 percent a year for a house bought in 1974 and sold in 1981. The annual IRR for a house bought in 1977 and sold in 1984 declined slightly to 31 percent.

Investment returns

The IRR estimates for houses bought after 1978 are partially dependent upon changes in house prices after 1984. In Table 2, three different estimates of changes in house prices were made to reflect three forecasts of possible rates of inflation.

In the standard forecast, house prices increase about 6 percent per year throughout the 1980s. In the low forecast, house prices are assumed to increase about 3 percent per year. In the high forecast, price appreciation of about 8 percent per year is assumed. Based on these estimates of price appreciation, calculations of the investment returns (IRRs) were made. In Table 3 the IRRs are presented. Using the standard rates of price appreciation from Table 2, the IRRs for houses bought between 1978 and 1980 and sold seven years later gradually declined from 28.5 percent to 18.7 percent. Using the low appreciation assumption, the IRRs drop from 27.9 percent to 15.2 percent. The high-rate IRRs range from 29.0 percent to 19.8 percent. In all three cases the range of investment return is quite narrow, suggesting that small changes in house prices are less important than an owner's tax bracket and leverage.

The pace of house price increases in California slowed drastically after 1980 and consequently so did the investment returns to owner occupancy. There are several factors that could reduce the likelihood that house prices will greatly exceed inflation in the near future. Present high house prices in the metropolitan regions of the state, high real

continued

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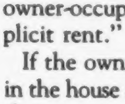

Dr. Michael S. Salkin is Vice President and Senior Economist with Bank of America's Economics-Policy Research Department, and Head of California Economic Research.

Table 2

Forecast of House Price Appreciation Rate 1984-1991

Year	Standard Forecast*	Low Forecast**	High Forecast***
1984	4.9%	—	—
1985	5.6	2.6	7.6
1986	6.1	3.1	8.1
1987	6.5	3.5	8.5
1988	5.9	2.9	7.9
1989	5.5	7.5	7.5
1990	6.1	3.1	8.1
1991	5.9	2.9	7.9

*This is the standard MBA inflation rate forecast, spring 1984.

**The low forecast is set at 3 percentage points below the standard forecast.

***The high forecast is set at 2 percentage points above the standard forecast.

interest rates, and the restructured mortgage market that shifts much of the inflation risk to mortgage borrowers will act to constrain house prices from rising very quickly.

Because house price appreciation will probably remain moderate, is home ownership still a good investment in the 1980s? This question is addressed by showing the investment returns on housing purchased from 1981 through 1984 and sold from 1988 to 1991 under seven different scenarios that vary with price appreciation, inflation and returns on alternative investments.

Scenarios

House prices increase at the same rate as inflation. According to these scenarios, house prices and inflation increase at the standard forecast rate (Scenario 1); at the low rate (Scenario 2); or at the high rate (Scenario 3). See Table 2 for the different house price appreciation forecasts.

These three scenarios are based on the expectation that house prices will increase parallel to the annual changes in the Consumer Price Index (CPI). At present, most forecasters seem to believe that house prices will follow the CPI in California during the next few years. So these three scenarios can be seen as the most likely to occur.

House prices increase at a rate less than inflation. According to these two scenarios:

a. The inflation rate is high, but house prices increase at the standard rate (Scenario 4).

b. The standard inflation forecast is correct, but house prices increase at the low rate (Scenario 5).

These two scenarios suggest that house prices will increase at a slower pace than the CPI for several years after 1984. During the 1970s, house prices tended to increase faster than the CPI. There were no long periods during the decade when CPI rose faster than house prices. In fact, during most of the decade house prices increased much faster than CPI.

continued

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Table 3

Future IRR on Housing Purchases

Years of Ownership	IRR (Standard Appreciation Forecast)	IRR (Low Appreciation Forecast)	IRR (High Appreciation Forecast)
1978-85	28.5%	27.9%	29.0%
1979-86	24.1	22.5	25.0
1980-87	18.7	15.2	19.8

**The calculations of IRRs are based on assumptions described in footnote 2. It is assumed that the house was or will be sold after the seventh year of ownership.*

Scenarios 1, 2, and 3

House Price Appreciation And Inflation Are Equal After 1983

	Scenario 1		Scenario 2		Scenario 3	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	Low Rate IRR	Altern. Invest.	High Rate IRR	Altern. Invest.
1981-88	16.6%	12.4%	12.3%	9.6%	19.2%	14.4%
1982-89	17.1	12.3	11.4	8.8	20.4	14.8
1983-90	18.5	13.2	11.5	9.0	22.5	16.3
1984-91	18.4	13.4	9.7	8.6	23.2	17.1

**IRR on an owner-occupied house.*
***Average annual return on an alternative investment with a real interest rate of 4 percent.*

Scenarios 4 and 5

House Prices Increase at a Rate Less Than Inflation

	Scenario 4		Scenario 5	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	Low Rate IRR*	Altern. Invest.***
1981-88	16.6%	14.4%	12.3%	12.4%
1982-89	17.1	14.4	11.4	12.3
1983-90	18.5	14.8	11.5	13.2
1984-91	18.4	16.3	9.4	13.4

**This is the IRR on an owner-occupied house.*
***The alternative investment returns the high rate of inflation, plus 4 percentage points.*
****The alternative investment returns the standard rate of inflation, plus 4 percentage points.*

Scenarios 6 and 7

House Prices Increase at a Rate Faster than Inflation

	Scenario 6		Scenario 7	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	High Rate IRR*	Altern. Invest.***
1981-88	16.6%	9.6%	19.2%	12.4%
1982-89	17.1	8.8	20.4	12.3
1983-90	18.5	9.0	22.5	13.2
1984-91	18.4	8.6	23.2	13.4

**This is the IRR on an owner-occupied house.*
***The alternative investment returns the low inflation rate, plus 4 percentage points.*
****The alternative investment returns the standard rate of inflation, plus 4 percentage points.*

House prices increase at a rate faster than inflation. According to these scenarios:

a. The standard inflation forecast is correct, but house prices increase at the high rate (Scenario 6).

b. The low inflation forecast is correct, but houses increase at the standard forecast rate (Scenario 7).

The final two scenarios forecast increases in house prices that exceed the rate of inflation. While this situation was common in the 1970s, it appears unlikely to occur in the next few years. Median house prices have risen to such a high level in California that it is difficult to believe they can continue to rise faster than CPI unless real incomes also increase very rapidly.

Some observers have forecast a "bust" in sales prices in California. They point out that house prices are much higher in the state than in other states and maintain that sales prices will tend to drop back toward national averages. At present, however, it appears that demand for housing remains high and that supply is still not keeping pace with demand, keeping pressure on house prices. It does not seem likely that prices will fall below CPI for an extended period in the next few years.

One more assumption allows a comparison of the IRR of the house purchase with alternative investments. It is conservatively assumed that an investor will be able to obtain an annual real return on an alternative investment of 4 percent.

An examination of the investment returns on owner-occupied housing under these seven economic scenarios indicates that owner-occupied housing is still a good investment and likely to yield higher returns than reasonable alternative investments. This conclusion assumes, of course, that the buyer pays the market value for a house—is informed and carefully shops for the house—and that the house is not located in an area of neighborhood decline and disinvestment.

If house prices increase with the rate of inflation, the investment return on

continued

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owner-occupied houses will exceed the return on alternative investments yielding a real after-tax return of 4 percent. The ability to leverage a family's limited funds and the income tax breaks provide the investment edge for housing in these situations.

If the rate of house price appreciation exceeds the inflation rate, home buyers will receive large returns on their housing expenditures. These rapid house value appreciation scenarios are most likely to be realized in only a few housing markets that suddenly become popular.

Families buying a house instead of using their money for an alternative investment appear to be making sound decisions. Their purchases reflect the belief that house prices will keep pace with inflation. While there is some risk that the lower house price appreciation will cause housing to yield less than other investments, at present, given the strong demand for single-family units, it appears that the risk is not large.

In November 1984, the U.S. Department of the Treasury announced its proposals for tax simplification. Included in the proposal were a number of changes that would affect real estate owners. For homeowners, the proposed changes, if passed into law, would increase the cost of ownership, lower property values and reduce the investment returns to homeownership. These changes pose a great risk to our forecast.

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[1] *The IRR is a widely used calculation, though some analysts warn that it may overstate the return, due to implicit assumptions in the equation. Nevertheless, it appears to be the best available measurement of return on housing investment that is available.*

These IRR estimates must be used cautiously because they are based on aggregate market data and on forecasts. Despite limitations, however, these estimates provide a reasonable comparison of changes in IRR over time. It is not expected that any particular house has achieved or will achieve IRR comparable to those estimated in this report. Some houses will have higher IRRs, others lower. Local market conditions and house characteristics will determine the actual IRRs.

continued

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[2] *The calculation of the IRR for any particular house depends on many different variables. In order to make a series of estimates of IRRs over time for a "typical house," some simplifying assumptions must be made. These assumptions are as follows:*

- *The expected tenure is seven years. In other words, the house will be sold seven years after it was purchased. The internal rate of return is, then, the annual return during each of the seven years of ownership.*
- *The annual imputed rent is estimated at 10.8 percent of the value of the house. Thus, the imputed rent for a house valued at $100,000 is $10,800 per year or $900 per month.*
- *The annual maintenance costs are estimated at 2.5 percent of the value of the house.*
- *The annual property tax is calculated as 1.2 percent of the sales price, increasing by 2 percent each year.*
- *The closing costs for the home purchase are three points (3 percent of the mortgage loan).*
- *The term of the loan is 27 years.*
- *The selling cost is 7.5 percent of the sales price.*

The values of the remaining variables are determined for 1960-84 based on available data. For 1984-1991, certain variables are forecast based on Regional Data Associates (RDA) forecasts. The variables are as follows:

- *The house sales price for each year from 1974 to 1984 is set at the median sales price of resale houses as reported by the California Association of Realtors. The earlier house prices are estimated based on RDA data.*
- *House value appreciation is based on the annual changes in the median sales prices from 1960 through 1984. For years after 1984, three separate rates of house price appreciation are forecast. The three rates are (1) the standard rate that is based on the RDA standard inflation rate forecast (see Table 2), (2) a low rate that is the standard rate minus 3 percentage points, and (3) a high rate that is the standard rate plus 2 percentage points.*
- *The mortgage loan terms (interest rate and loan-to-value ratio) are the state averages reported by RDA.*
- *Marginal income tax rates are estimated for the moderate-income buyer. The rates are adjusted upward during the 1970s as a result of inflated incomes during the decade. The marginal tax rate is adjusted downward after 1981 due to the provisions of the 1981 Economic Recovery Tax Act.* □

THE LAST WORD

TOMORROW'S ECONOMY

Daniel A. Blumberg

In the 1950s and 1960s the U.S. economy underwent very few shocks. It was not until the 1970s, when the Organization of Petroleum Exporting Countries (OPEC) doubled and then tripled the price of a barrel of oil that the Western world was thrown into a state of economic chaos. Governments and businesses could not increase revenues quickly enough to make up for rising petroleum prices. Therefore, some nations, including the United States, dramatically increased their money supplies in order to meet the higher cost of energy. In the U.S., this set off an inflationary spiral that was eventually halted by the worst recession since the Great Depression of the 1930s. Then came 59 months of recovery and inflation (1975 to 1979). This was followed by a recession that ran from late 1980 to the summer of 1982, when it was reversed by a great expansion of money supply.

Currently, the U.S. is experiencing impressive economic growth, so there is not much likelihood that the Federal Reserve (Fed) will institute an easy money policy, for fear of setting off another inflationary spiral. Thus, the direction of interest rates would seem to be upward because both business and government are competing for the same debt equity dollar.

On interest rates

In the 1940s, 1950s and 1960s, if interest rates moved 100 basis points in the course of a year it was considered a lot. However, by the late 1970s and early 1980s interest rates were moving as much as 200 to 400 basis points in a period of 60 to 90 days. The major reasons for this change in the volatility of interest rates are:

- The deficits currently incurred by the public sector are far greater than they have been as a percentage of gross national product (GNP) (3.5 percent in the 1970s and 7 percent in the 1980s).
- Deregulation, enacted in 1981, allows banks to pay whatever they want for the money they borrow to lend to their customers.
- The consumer has been conditioned to find higher rates acceptable.
- Billions of foreign dollars move in and out of the U.S., causing temporary surpluses and shortages of money.
- Multibillion-dollar mergers, which are transacted with borrowed funds, are taking place.
- The market is very sensitive to money supply figures. In past decades money supply figures had very little effect on interest rates.
- Large banks fear shortages of capital because of defaulted loans.

Guns and butter=inflation

In a "guns-and-butter economy" such as today's, either the private sector can pay the higher interest rates or the government can print money, and the price will be higher inflation rates.

On Friday, April 7, 1984, the Fed raised the discount rate (the rate the Fed charges member banks when they come to the discount window for loans) from 8.5 percent to 9 percent. This particular rise in the discount rate was noteworthy because the Fed had kept the discount rate at 8.5 percent for 15 months (the longest period the discount rate had remained steady for more than 12 months since 1979). This rise in the discount rate substantiated a tight-money, anti-inflation policy by the Fed.

The anticipated deficit over the next three years is roughly $600 billion. This would increase the national debt by 60 percent, and it would cause Americans to pay more than 20 percent of every tax dollar just for interest on the national debt. Current bills in Congress are anticipated to reduce the deficit by approximately $150 billion over the next three years. This still is a drop in the bucket when one considers the consequences of even a $450 billion deficit. Simply stated, if business continues to borrow at the current rate and the Treasury has to go to the market to borrow $450 billion, interest rates must substantially increase, unless the federal government monetizes the debt by printing money. In the latter case, the consequence will probably be higher interest rates and inflation in 1986.

continued

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Rising factory use

Chart 1

Year Factory Utilization Hit 85%	Inflation Period	Percentage Increase In Inflation
1955	1957 to 1961	55%
1964	1964 to 1970	500
1973	1973 to 1975	343
1978	1978 to 1980	86

In the past, whenever factory utilization exceeded 85 percent, inflation soon followed. The last four times that factory utilization exceeded 85 percent were in 1955, 1964, 1973 and 1978. (See Chart 1.) Between 1957 and 1961, inflation rose from 4.3 percent to 6.7 percent; from 1964 to 1970, it jumped from 1.2 percent to 6 percent; between 1973 and 1975, it moved from 3.5 percent to 12 percent; and, from 1978 to 1980, it shot up from 7.5 percent to 14 percent. The current factory operating rate is 81 percent, up from 68 percent as of the end of 1982.

As the nation's factories draw closer to operating at full capacity, business demand for new capital will tend to push interest rates higher. If Congress passes realistic tax reform laws in 1984 and 1985 (that will reduce the deficit $300 billion over three years), the Fed will probably allow monetary growth beyond its current target range (5-9 percent for M1 and 4-8 percent for M2); interest rates (prime rate: 11.5 percent; Fed funds rate: 10 percent; discount rate: 9 percent) could hold within the 100 basis point range throughout 1985, and inflation could hold within 200 basis points of its current range (3.5

continued

Daniel A. Blumberg is president of Consolidated Capital Securities Corporation, the underwriter for real estate investment programs sponsored by Consolidated Capital, a full service real estate investment group based in Emeryville, California. Mr. Blumberg is also a cofounder, director, and principal shareholder.

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percent—4.5 percent). However, for 1986 the prognosis is uncertain.

Trends

Since the end of World War II, the average recovery period following the last seven recessions has been 45 months. If economic history repeats itself, February or March of 1986 will mark the beginning of a recession (the recovery began June 1982). Because high interest rates are normally followed by an expansion of money, an increase of money supply in the spring of 1985 can be expected.

Because real estate tends to have a positive correlation co-efficient to inflation (it increases in value as inflation rises), it would appear that investments in income-producing real estate are warranted. In the early stages of an inflationary spiral the stock market also seems to perform well, but then tends to be hit hard as interest rates climb; if the Fed attempts to bring down interest rates through an easy money policy in the spring of 1985, the easy money policy will increase the probabilities that we will enter a period of contracting credit and higher interest rates by the spring of 1986. If this occurs, the stock market will suffer in 1986, but should do very well in 1985.

This scenario presumes that the economy is operating at close to full capacity and that there are no unusual major shifts of capital into this country. If the U.S. recovery is still going strong and the rest of the western world is looking at the U.S. as a haven for secure investment capital as well as a safe harbor in which to leave money, the U.S. recovery would last throughout 1986 and even longer, because a tightening of credit by the Fed could not prevent businesses from raising capital at competitive rates through commercial paper and private placements. On the other hand, if the rest of the western world is in the midst of a full-blown recovery, then U.S. investments would less likely be in great demand as a safe harbor.

Attempting to predict inflation and interest rates is a fool's game at best because there are many external events that cannot be predicted, many of which could have as dramatic an effect on further interest and inflation rates as the factors mentioned previously. The economic scenario discussed in this article is the most probable, however, based on recent U.S. history. Still, as events unfold, the predictions may change, along with the timing of those predictions.☐

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MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

December 21, 1984

Maneuvering soft landings are difficult for public policymakers charged with the responsibility of stearing the U.S. economy. For this reason, the third quarter deceleration in economic growth is particularly noteworthy, for in the view of this writer, the slowdown should be interpreted as the first sign that the two-year-old economic recovery may indeed be headed for a soft landing.

After growing at an unsustainable and potentially inflationary 8.6 percent annual rate in the first half of 1984, real gross national product (GNP) growth settled down to a 1.9 percent annual rate in the third quarter. This reduction in the pace of economic activity represented a welcome shift to a slower, more durable rate of expansion. As such, this should be regarded as a pleasant departure from the trend of 1970s when business expansions were allowed to grow too fast, for too long, thereby producing the rising inflationary pressures that would ultimately choke off every recovery.

The Federal Reserve Board (Fed), the economy's pilot, deserves a great deal of credit for recognizing the need to slow the rate of the recovery long before signs of accelerating inflation became visible. Concerned that the rapid rate of growth in the first half of the year would indeed foster price instability and rising interest rates if allowed to continue, the Fed opted to slow the pace of money supply growth throughout the third quarter in an effort to cool off the economy. Thus, after growing at an 8 percent average annual rate in the first half of 1984, M1 (currency in circulation plus demand deposits) growth was brought to a standstill between late June and mid-November.

As we know, this monetary restraint substantially slowed the forward momentum of the recovery. After rising vigorously in the first half of the year, monthly retail sales fell abruptly, industrial production slowed sharply, and durable goods orders eased up for the first time in several months. At the same time, the steadily deteriorating trade sector continued to produce a significant drag on domestic growth.

The net effect and intended payoff of this orchestrated reduction in economic growth was a sharp drop in business loan demand, which in turn paved the way for a reversal in the upward drift of interest rates throughout the summer months. As of the second week in December 1984, rates on short-term Treasury bills had fallen by over 200 basis points to 8.38 percent, the prime rate had declined by 175 basis points to 11.25 percent, and long-term Treasury securities had dropped by over 230 basis points to 11.20 percent. Reflecting this trend, as of early December commitment rates on 30-year fixed-rate mortgages were averaging 13.2 percent, more than 100 basis points below the high reached in the summer.

In short, the Fed's application of the monetary brakes last summer may have avoided a repetition of another boom/bust cycle that typified the 1970s. By successfully lowering economic growth to a pace that is compatible with more affordable interest rates and continued price stability, the longevity of the current recovery has been enhanced. Despite the continued presence of large federal borrowing, the Fed's demonstrated commitment to maintaining price stability has allowed the economy to enter the third year of this recovery with favorable prospects that interest rates will not rise to stifling levels.

Indeed, the decline in interest rates experienced in the second half of 1984, combined with a highly probable move by the Fed toward a more stimulative monetary policy beginning in late 1984, suggests that economic growth will pickup by the first quarter of 1985. The 1.8 percent increase in November 1984 retail sales indicates that a renewed rise in consumer spending is likely to provide the initial impetus to this faster growth. Much of this improvement in economic activity will also be derived from an increase in housing activity. If interest rates on fixed-rate mortgages fall sufficiently, mortgage loan originations could rise sharply in the first quarter, with refinancing activity away from adjustable rate mortgages toward fixed-rate mortgages accounting for a substantial portion of origination volume.

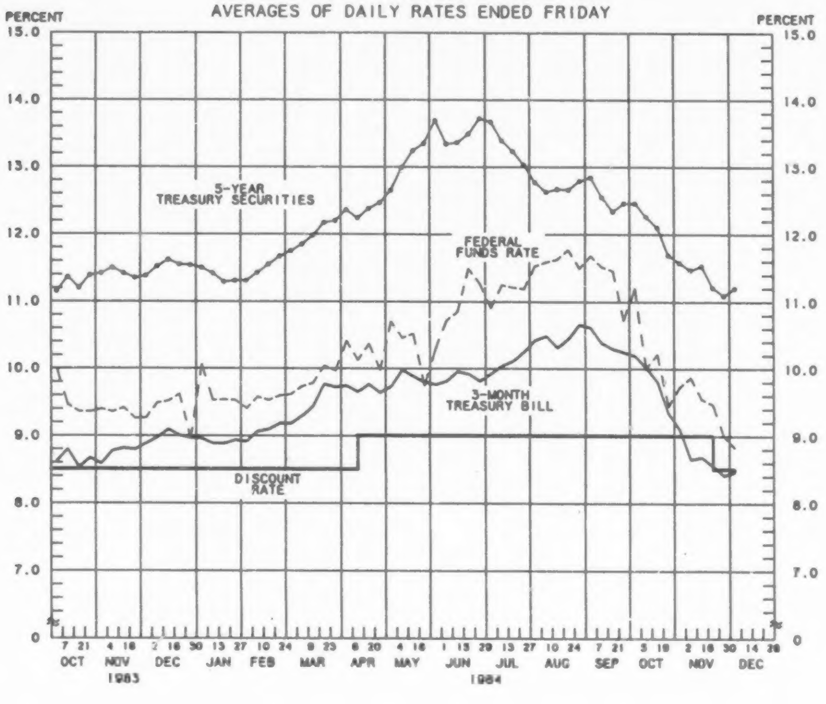
The acceleration in first quarter growth, however, may stop and ultimately reverse the recent downward drift of interest rates by early in the second quarter. This, in turn, will slow housing activity by mid-year. At the same time, if it becomes apparent by the spring that the recovery is back on track and that little progress will be made in lowering the budget deficit, the Fed is likely to tighten up on reserve growth once again to slow the recovery and thereby to prevent a clashing of public and private sector loan demand.

Such a move by the Fed would moderately reduce economic activity throughout the second half of the year, setting the stage for a round of slowly declining interest rates in the fall of 1985. From the perspective of the real estate finance industry, this course of events could provide a pretty smooth landing from the heights attained during this recovery.

Edison R. Zayas
Economist

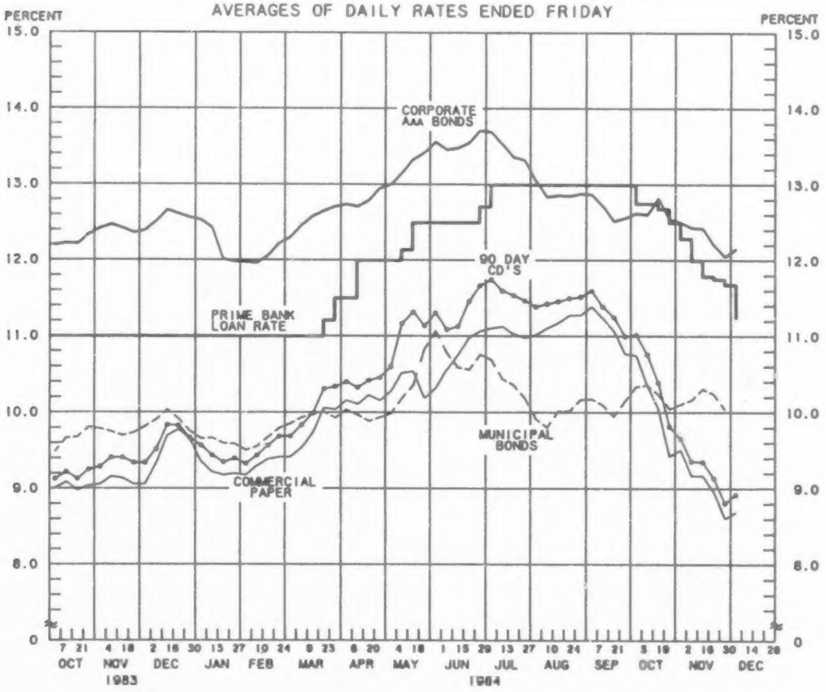
SELECTED INTEREST RATES

AVERAGES OF DAILY RATES ENDED FRIDAY



YIELDS ON SELECTED SECURITIES

AVERAGES OF DAILY RATES ENDED FRIDAY



PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—JANUARY 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,630	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	147	102	45	1,554	1,045	509
SEP	128	80	48	1,440	963	477	148	100	48	1,679	1,123	556
OCTp	135	85	50	1,408	894	514	150	99	51	1,515	1,041	474
10months												
1984	1,417	904	513				1,522	1,043	479			
1983	1,372	890	482				1,459	1,019	440			
1982	811	516	295				870	613	257			
1981	873	595	278				960	710	250			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
JUL	$152,028	$67,598	$25,082	$59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,558	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,724	74,087	30,932	74,705
AUG	180,966	72,024	32,905	76,037
SEP	181,208	70,295	33,186	77,727
OCTp	184,348	69,202	36,072	79,074

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	340	6.7
AUG	273	49	347	7.3
SEP	216	54	347	6.5
OCTp	235	56	352	6.2
10months				
1984	2,505	562		
1983	2,339	530		
1982	1,630	341		
1981	2,077	380		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	24	67	35	183	223	739	409
SEP	18	19	57	34	185	178	684	393	19	24	69	36	188	241	823	427
OCTp	19	20	59	36	179	177	656	396	20	26	68	36	191	214	730	380
10 months																
1984	162	179	684	393					166	214	760	382				
1983	140	163	737	331					145	190	798	326				
1982	88	106	438	179					95	126	482	167				
1981	96	120	430	227					102	149	494	216				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,125	663	462	146	105	41
OCTp	1,121	665	456	156	103	53
10 months						
1984				1,127	819	308
1983				816	576	240
1982				1,068	809	279

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional								U.S. Gov't.				
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.		Aaa Utility[7] New Issue	10-yr.	26-wk.	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
1983																
JUL	14.23%	14.00%	14.01%	12.50%	12.63%	14.50%		12.978%	13.638%	12.80%	12.32%	11.38%	9.26%	9.25%	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99%	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
MAR	$21,468	$5,910	$ 7,577	$ 6,965	$1,016	$15,824	$5,050	$ 5,877	$4,839	$ 54	$1,113	$ 70	$ 677	$285	$ 82	$4,531	$790	$1,023	$1,841	$ 902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUG	25,307	3,570	12,532	7,479	1,726	16,944	3,070	9,546	4,264	64	1,558	0	1,221	313	24	6,805	500	1,765	2,902	1,638
SEPp	n.a.	2,980	n.a.	n.a.	n.a.	n.a.	2,330	n.a.	n.a.	n.a.	n.a.	70	n.a.	n.a.	n.a.	n.a.	580	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
MAR	$ 72,413	$18,500	$28,864	$15,217	$ 9,850	$22,322	$7,660	$10,291	$3,073	$1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	n.a.	8,150	n.a	n.a.	n.a.	n.a.	2,910	n.a.	n.a.	n.a
OCT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
MAR	176	113	63	87	$5,003	31	$1,508	20	$1,243	36	$2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
MAR	$1,184	$1,433	$18,157	$1,684	$1,410	$1,438	$2,849	$2,469	$9,487	$5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	968	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,539	2,663	2,864	2,668	2,360	2,473

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
MAR	$170	$ 80	$20	$ 70	$ 50	$540	$180	$190	$170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100p	50p	10p	40p	120p	430p	100p	150p	190p
OCT	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
Year and Month	Total[2]	1-4 Units	5+ Units	Non-Res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]
1982													
OCT	$2,670	$2,100	$ 220	$ 250	$ 2,850	$ 2,290	$ 840	$ 550	$ 900	$ 320	$ 90	$ 230	$ 240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,680	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEPp	3,300	2,430	120	780	2,980	2,330	540	360	1,430	70	70	0	580
Year to Date[5]													
1984					$40,780	$34,160	$ 7,920	$5,480	$20,740	$1,900	$120	$1,780	$4,730
1983					49,870	42,500	16,740	10,130	15,630	3,460	780	2,680	3,910
1982					18,440	15,170	4,860	2,900	7,410	910	410	500	2,360
1981					26,680	20,730	6,900	5,170	8,660	1,340	760	580	4,620

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non.-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
OCT	$ 6,740	$ 5,080	$1,010	$ 650	$ 4,090	$ 2,560	$1,020	$ 510	$10,850	$ 950	$ 770	$ 7,830	$ 1,590	$ 950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEPp	2,910	2,640	30	240	2,760	2,390	90	280	7,350	300	500	7,000	480	1,390
Year to Date														
1984	$37,280	$31,270	$ 80	$5,970	$42,270	$33,050	$2,890	$6,330						
1983	61,010	53,910	3,020	4,080	62,460	51,270	4,350	6,840						
1982	27,660	20,710	1,660	5,290	31,310	23,660	1,810	5,840						
1981	29,290	24,710	680	3,900	35,420	25,050	1,190	9,180						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] / COVERAGE[4] / SERVICING VOLUME[1]

Year and Month	Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-Res.[3]	Coverage 1-4 Units	Coverage 5+ Units	Coverage Non-Res.[3]	Servicing 1-4 Units	Servicing 5+ Units	Servicing Non-Res.[3]
1982															
OCT	$ 8,390	$4,390	$1,050	$ 880	$2,460	$2,750	$180	$2,570	$1,250	51%	43%	47%	$240,780	$28,380	$41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEPp	7,310	5,410	990	660	3,760	640	0	640	1,260	55	51	79	296,020	39,300	38,620

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	CONSTRUCTION LOANS CLOSED Total	1-4 Units	5+ Units	Non-Res.[3]	END OF MONTH INVENTORY Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
OCT	$130	$ 70	$20	$ 40	$ 30	$230	$100	$110	$ 20	$3,460	$ 830	$ 920	$1,710	$ 600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEPp	100	50	10	40	120	430	100	150	190	2,150	790	180	1,180	800

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] / NOTES PAYABLE[1]

Year and Month	Issued During Month Total	1-4 Units	5+ Units	Non-Res.[3]	End of Month Balances Total	1-4 Units	5+ Units	Non-Res.[3]	Notes Payable End of Month Balances Total	Comm. Paper	To Parent	To Others
1982												
OCT	$2,370	$110	$2,000	$ 260	$ 7,180	$ 660	$ 3,630	$2,890	$18,330	$1,460	$ 7,870	$ 9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,010
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEPp	750	90	80	580	4,140	730	580	2,830	58,690	4,520	13,990	40,180

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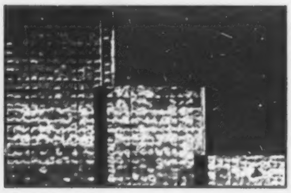
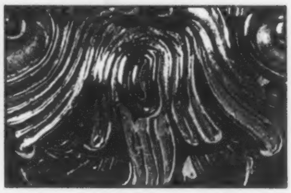
36 WAM



48 Big Deal



71 Pension Funds

"Have We Got a Deal For You!"
Charles H. Fritts 9

Management Development

The Other Side Of Training
Norm Anderson 16

Key To Profitability And Wealth
James R. Carroll, CMB 17

Measuring the Maturity of a Mortgage Security: When Is a WAM Not A WAM?
Scott M. Pinkus and Susan D. Mara 36

Big Deal in the "Big D"
James L. Northrup 48

CMOs Transform the Mortgage Credit Market
Dr. Victor Cholewicki 61

Pension Funds Unlimited: Who Calls on Whom?
S.Q. DellaGrotta 71

The Last Word (Servicing Alternatives)
Joseph L. Stiles 81

About This Issue 5
People 83
Books 91
Advertisers Index 94
Mortgage Market Trends 97

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MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

January 17, 1985

By January 1984, the nation had experienced its first full year of non-inflationary economic growth since the middle of the 1970s. Gross national product (GNP) adjusted for changes in prices (real GNP) increased 3.7 percent in 1983. In the first quarter of 1984, real GNP grew $38.2 billion, a seasonally adjusted annual growth rate of 10.1 percent, and followed growth on the order of 6 percent in the fourth quarter of 1983. More than 90 percent of the net first quarter expansion arose from a surge in investment spending, primarily for business inventories. Consumer spending remained healthy, but off from the fourth quarter rate.

Interest rates moved upward during the quarter, with the yield curve becoming steeper. Yields on 10-year securities increased 65 basis points, to 12.32 percent in March, while short-term yields rose only 51 basis points, to 9.44 percent. Real per capita disposable personal income continued to climb, up to a 7.7 percent annual rate, and the rate of savings broke 6 percent for the first time since the third quarter of 1982.

In the second quarter 1984, the consumption and investment pictures changed radically. Total investment fell $1.6 billion, principally because of an $11 billion drop in business inventory investment during the quarter. Real GNP, however, continued to expand at the healthy rate of 7.1 percent. This growth occurred because of an increase in final sales at a 10 percent annual rate. Consumption expenditures grew at an 8 percent rate, primarily in the nondurable goods and services sectors. The yield spread on government securities increased further in the second quarter, by about 55 basis points quarter-to-quarter, while short-term yields rose to 9.94 percent in June, and long-term yields increased to 13.56 percent. Consumers increased their debt burden and dipped into their savings to finance a substantial portion of their purchases in the second quarter. Real per capita disposable personal income increased at an annual rate of 5.5 percent in the second quarter, off from the first quarter rate of 7.7 percent. The savings rate also dipped, to a 5.7 percent rate, from the first quarter mark of 6.1 percent.

Along with excellent first half economic growth was an environment of continued moderation in inflation. The GNP measures of inflation, having risen at 3.8 percent in 1983, averaged only 3.9 percent in the first half of 1984. By June 1984, the annual rate of growth in the Fed money aggregate M1 was around 8 percent, near the top of the target range. Average weekly gross earnings, however, reflecting continued competition in the employment markets, increased at less than a 2.25 percent rate in the first half of the year. Because of increased foreign penetration in American markets, inflation at the wholesale level was limited to barely a 2 percent rate.

The Fed clamped down on money growth in the early summer months of 1984. The ever-increasing federal budget deficit was financed by foreign inflows of capital associated with the growing imbalance in the foreign trade sector. Foreign capital, attracted by the vigorous U.S. economic performance and favorable dollar interest rate differentials, had been flowing into this country at a rate exceeding $100 billion a year. The concern was that these capital inflows can rapidly become outflows, and if that should happen interest rates would inevitably rise, and with them, prices. The hope was that a more restrictive Fed policy would dampen GNP growth, bring about a decline in interest rates and thus produce an environment conducive to a stable period of long-term economic growth, with only moderate increases in prices.

To be sure, the economy did slow substantially in the second half of 1984. Inventories bulged in the third quarter, as final sales slowed dramatically, from the 10 percent annual rate in the second quarter to a minus 1 percent annual rate in the third.

Consumers continued to spend for services, but declines in the purchases of both durable and nondurable goods produced a decline in the rate of GNP growth to only a 1.6 percent annual rate. Because consumers were spending less, the savings rate jumped to 6.3 percent, the highest level in more than two years. Yields on long-term Treasury securities started falling in July and lost over 100 basis points by September. Because short-term rates did not follow suit until late August, the yield spread declined by about 40 percent during the quarter.

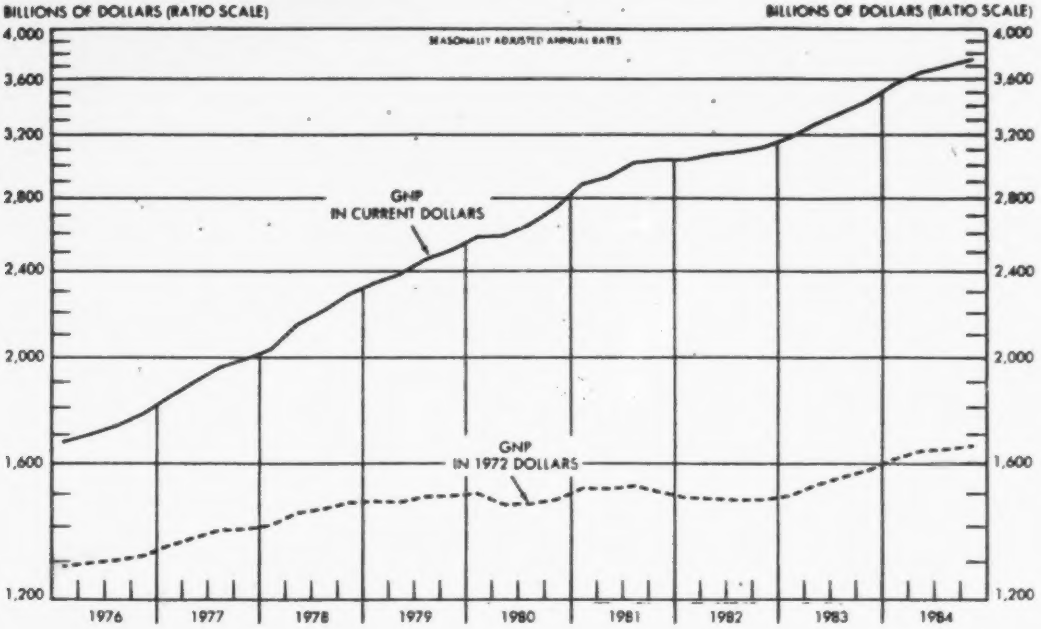
The fourth quarter showed a substantial rebound in GNP growth. Early estimates predict growth in real GNP for the last quarter at a 2.8 percent annual rate. This is a healthy rise from the third quarter and still allows for further growth in 1985. Final sales, moribund in the third quarter, increased substantially in the fourth quarter, and inventory investment lagged as businesses slowed their pace of inventory accumulation. Net exports rose sharply in the fourth quarter, but had little effect on the value of the dollar in overseas markets. Prices moderated by year-end, with the GNP measure of inflation moving to a 3 percent annual rate, from 4 percent in the third quarter.

Overall in 1984, real GNP is expected to have increased 6.7 percent during the year, with the bulk of the growth occurring in the first half and with final sales accounting for about three-quarters of this increase. Government purchases increased, and fixed residential investment was also up. Inflation is expected to have been about 4 percent for 1984, unchanged from 1983 and certainly much less than was expected in the early months of the year.

Going into 1985, the economy should exhibit moderate yet sustained overall growth. Interest rates declined slightly and can be expected to rise somewhat through the second quarter. Housing markets, reacting to these interest rate levels, should be more active in the early months than later in the year. Barring any financial shocks from foreign investment sources, the Fed practice of "leaning into the wind" should show positive results in 1985.

Gregory D. Luetscher
Assistant Economist

GROSS NATIONAL PRODUCT



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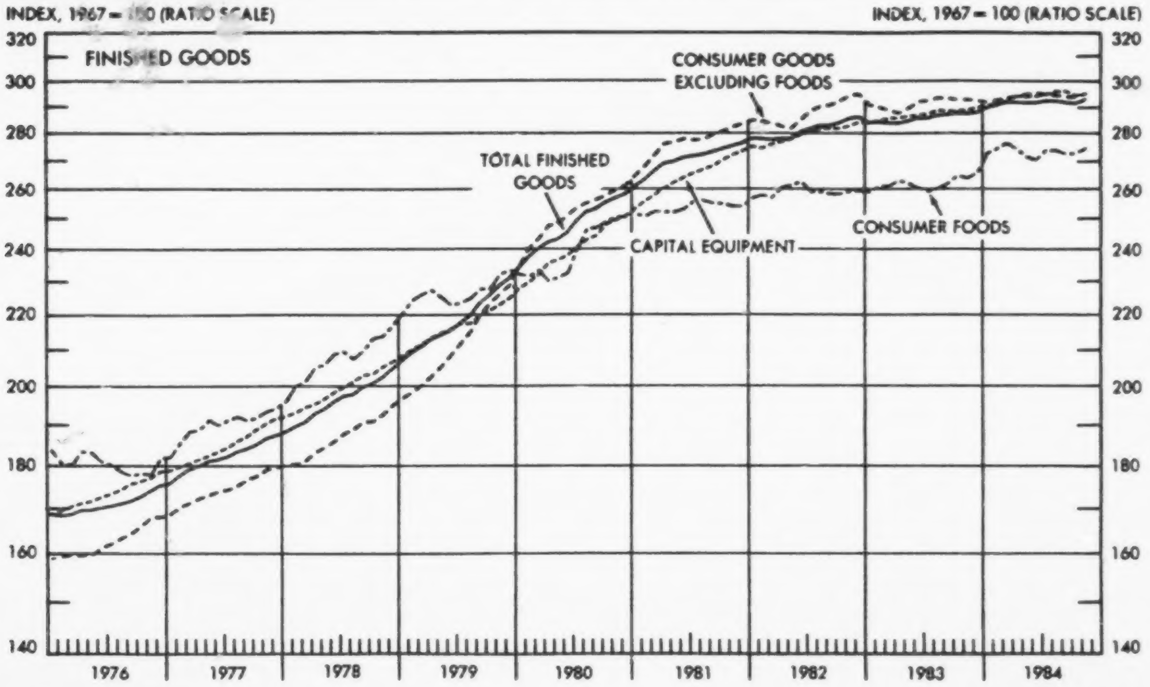

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MORTGAGE MARKET TRENDS—FEBRUARY 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	147	102	45	1,554	1,045	509
SEP	128	80	48	1,440	963	477	148	100	48	1,683	1,125	558
OCT	135	85	50	1,418	910	508	152	102	50	1,535	1,070	465
NOVp	121	73	48	1,591	962	629	123	88	35	1,554	1,133	421
11months												
1984	1,537	979	558				1,647	1,134	513			
1983	1,484	959	524				1,597	1,115	482			
1982	894	571	324				983	687	296			
1981	711	621	90				1,022	760	262			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-res.
1983				
AUG	$157,313	$68,746	$26,025	$62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,588	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,531	73,695	30,873	74,963
AUG	181,128	71,962	32,998	76,168
SEP	181,088	70,395	32,835	77,858
OCT	184,729	69,914	33,841	80,974
NOVp	189,485	69,665	34,668	85,152

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	340	6.7
AUG	273	48	346	7.2
SEP	216	53	346	6.5
OCT	234	55	350	6.3
NOVp	215	41	355	8.6
11months				
1984	2,719	600		
1983	2,541	577		
1982	1,794	380		
1981	2,224	402		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	24	67	35	183	223	739	409
SEP	18	19	57	34	185	178	684	393	19	24	69	36	190	234	820	439
OCT	19	21	59	37	181	182	651	404	22	26	68	36	213	215	727	380
NOVp	17	17	56	30	210	208	737	436	21	19	55	29	246	220	682	406
11 months																
1984	178	198	737	423					189	231	816	411				
1983	152	178	796	359					159	207	877	357				
1982	101	111	486	194					107	141	550	183				
1981	103	125	449	234					106	157	530	225				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,123	662	461	147	105	42
OCT	1,116	661	455	157	104	53
NOVp	1,109	657	452	130	92	38
11 months						
1984				1,497	1,031	466
1983				1,255	919	336
1982				928	661	267
1981				1,152	848	304

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional							Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.			10-yr.	26-wk.			
1983																
AUG	13.78%	13.90%	13.92%	12.38%	12.72%	14.38%		13.195%	13.688%	13.22%	12.25%	11.85%	9.51%	9.54%	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24	12.99%	12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92
NOV	12.90	13.20	13.21	12.75	12.89	13.86		12.770	12.710	12.59	12.98	11.57	9.39	9.03	(8)	102

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
APR	$20,459	$6,080	$ 7,942	$ 5,681	$ 756	$14,661	$4,790	$ 6,292	$3,523	$ 56	$1,884	$890	$ 656	$288	$ 50	$3,910	$400	$ 990	$1,870	$ 650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUG	25,307	3,570	12,532	7,479	1,726	16,944	3,070	9,546	4,264	64	1,558	0	1,221	313	24	6,805	500	1,765	2,902	1,638
SEP	20,074	3,050	9,654	6,492	878	13,149	2,400	6,889	3,803	57	1,474	70	1,083	297	24	5,451	580	1,682	2,392	797
OCTp	n.a.	3,510	n.a.	n.a.	n.a.	n.a.	2,920	n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	n.a.	n.a.	590	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
APR	$ 76,041	$19,550	$31,850	$14,311	$10,330	$22,049	$7,460	$ 9,730	$3,265	$1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	90,837	8,150	51,666	17,591	13,430	17,127	2,910	9,852	2,870	1,495
OCT	n.a.	8,400p	n.a.	n.a.	n.a.	n.a.	3,910p	n.a.	n.a.	n.a
NOV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
APR	180	117	63	96	$5,483	39	$1,867	19	$1,190	38	$2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391
NOV	118	36	82	85	5,363	9	440	11	668	65	4,255

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
APR	$1,023	$1,004	$19,138	$1,152	$2,149	$3,079	$1,807	$1,525	$6,423	$4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,453	2,663	2,864	2,568	2,360	2,473
NOV	2,150	1,297	34,821	1,240	3,865	4,158	2,241	1,996	2,922	1,432

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
APR	$130	$ 50	$10	$ 70	$ 60	$290	$150	$610	$ 80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100	50	10	40	120	440	100	160	180
OCT	90p	40p	10p	40p	130p	400p	210p	100p	90p
NOV	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
Year and Month	Total[2]	1-4 Units	5+ Units	Non-res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1982													
NOV	$3,800	$3,290	$ 250	$ 280	$ 3,240	$ 2,770	$ 1,190	$ 690	$ 890	$ 200	$140	$ 60	$ 270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,670	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEP	3,380	2,500	120	780	3,050	2,400	550	380	1,470	70	70	0	580
OCTp	3,420	2,740	0	750	3,510	2,920	780	440	1,700	0	0	0	590
Year to Date[5]													
1984					$44,360	$37,130	$ 8,710	$ 5,940	$22,480	$1,900	$120	$1,780	$5,320
1983					54,170	46,130	17,870	10,880	17,380	3,630	780	2,850	4,410
1982					21,290	17,460	5,700	3,450	8,310	1,230	500	730	2,600
1981					29,120	22,600	7,380	5,520	9,700	1,510	760	750	5,020

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1982														
NOV	$ 7,290	$ 5,740	$ 490	$1,060	$ 6,010	$ 3,990	$ 950	$1,070	$13,260	$ 1,490	$ 910	$10,010	$ 2,250	$1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCTp	3,910	3,240	0	670	4,830	4,090	310	430	7,660	300	530	8,400	460	740
Year to Date[5]														
1984	$41,190	$34,510	$ 80	$6,600	$47,100	$37,150	$3,190	$6,760						
1983	67,140	58,810	3,260	5,070	68,740	57,080	4,550	7,110						
1982	34,400	25,790	2,670	5,940	35,400	26,220	2,830	6,350						
1981	31,630	26,480	850	4,300	37,980	26,900	1,390	9,690						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] | COVERAGE[4] | SERVICING VOLUME[1]

Year and Month	Total	1-4 Units				5+ Units			Non-res.[3]	Coverage 1-4 Units	Coverage 5+ Units	Coverage Non-res.[3]	Servicing 1-4 Units	Servicing 5+ Units	Servicing Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.							
1982															
NOV	$ 9,140	$5,070	$1,440	$1,050	$2,580	$2,890	$400	$2,490	$1,180	55%	51%	56%	$240,710	$29,620	$42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	5,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7 450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEP	7,310	5,490	1,010	680	3,800	640	0	640	1,260	58	51	45	302,840	39,300	38,930
OCTp	7,240	5,540	1,080	750	3,710	590	0	590	1,110	64	52	45	311,760	38,490	37,260

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans
1982														
NOV	$130	$ 80	$10	$ 40	$ 30	$430	$130	$220	$ 80	$3,150	$ 840	$ 740	$1,570	$ 610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEP	100	50	10	40	120	440	100	160	180	2,150	790	180	1,180	800
OCTp	90	40	10	40	130	400	210	100	90	2,140	780	190	1,170	850

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] | NOTES PAYABLE[1]

Year and Month	Issued During Month				End of Month Balances				Notes Payable: End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
NOV	$1,370	$190	$ 880	$ 300	$ 7,810	$ 860	$ 4,040	$2,910	$12,720	$1,910	$ 5,850	$ 4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	[illegible]	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	[illegible]	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,040
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEP	760	100	80	580	4,170	760	580	2,830	59,220	4,520	14,240	40,460
OCTp	690	130	160	400	3,820	860	590	2,370	54,850	4,830	14,720	35,300

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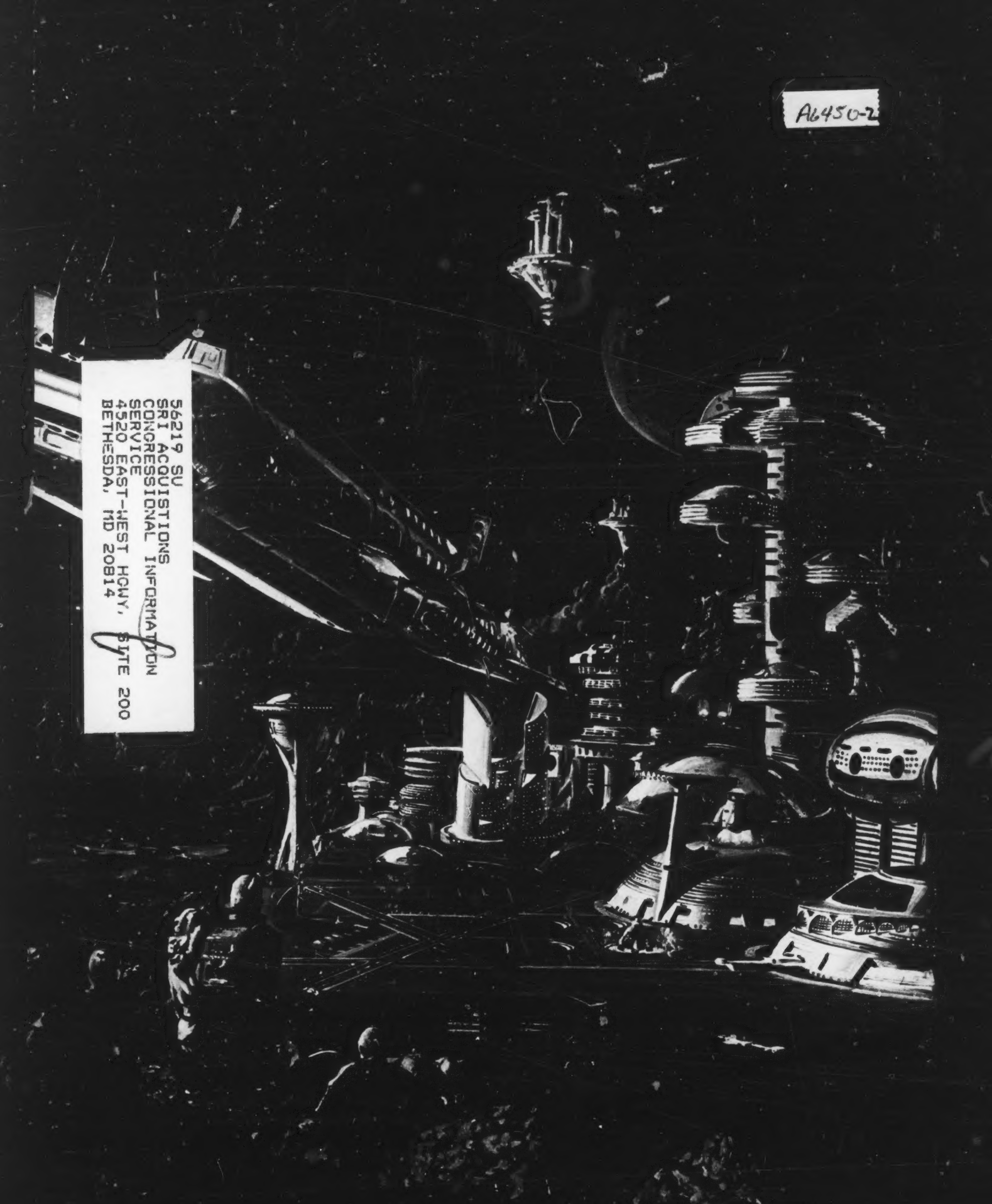

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Volume 45 No. 6
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8 Multifamily

20 Tax-Exempt

52 Coinsurance

Multifamily Coinsurance: Programs that Work
Silvio DeBartolomeis 8

Multifamily Housing: The Tax-Exempt Market
Raymond J. McClendon 20

Housing's "Big Chill"
Kenneth Lore 32

FHA Multifamily Terminations: A Review
Glory Dixon 44

The ABG's of Coinsurance
Gaye Beasley 52

New Financing From Old Programs
Kenneth Puller, Maureen Fuller and F. Fletcher Graham 64

An Appraiser Takes a Look at His Profession
Fayette F. Arnold 84

The Last Word (Reducing REO Insurance Expenses)
Dave Duffy 97

People 101
Books 109
Ad Index 110
Mortgage Market Trends 113

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FHA MULTIFAMILY TERMINATIONS: A REVIEW

Glory Dixon

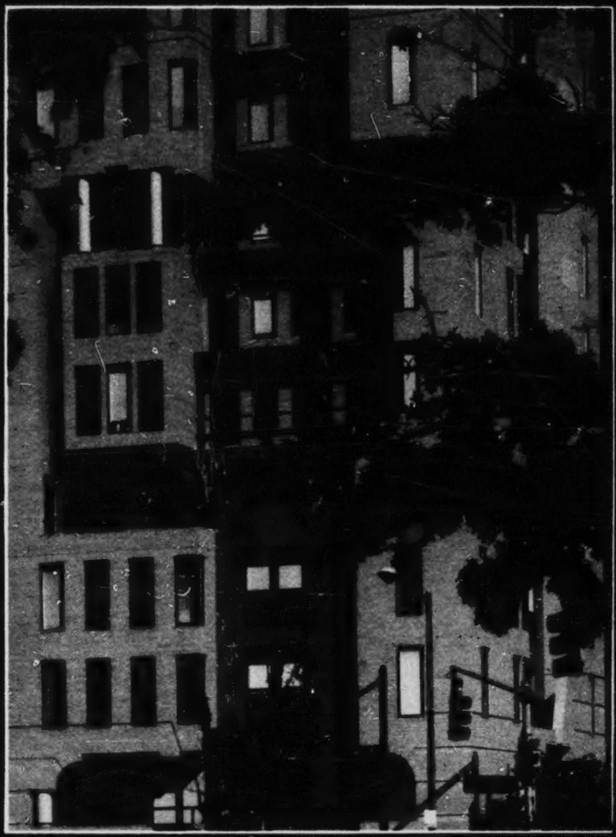

PHOTO BY: GARY LADD

Since 1934, the Department of Housing and Urban Development (HUD) has insured more than 32,980 project mortgages. The mortgages insured have included projects financed with an interest subsidy, rehabilitated projects, newly constructed projects, projects constructed prior to application for insurance (existing construction), cooperative housing projects and projects financed at a below market interest rate (BMIR). There are nine major multifamily housing insurance programs of the National Housing Act considered. All program activity discussed in this article is as of April 30, 1984.

The programs

Section 207-The oldest of the programs is Section 207, which originated in 1934 to insure mortgage loans to construct or rehabilitate multifamily rental housing. There have been 1,885 endorsements. The claim rate for 207 is 19.9 percent (375 claims). Of the claims, 98.7 percent came from cases endorsed between 1949 and 1972 (370 claims). The remaining 1.3 percent of the claims came from cases endorsed after 1972 (5 claims). A total of 625 cases are still in force, representing 88,346 units. While the program is still available, only four endorsements have been written in the last five years.

continued

Chart 1

Endorsements, Claims and Non-Claim Terminations and Insurance in Force For Selected Multifamily Sections of the Act as of April 30, 1984

Section of Act	Program Start Year	Endorsements	Claim Terminations	Non-Claim Terminations	Insurance In Force
207	1934	1885*	375	885	625
213	1950	502	24	10	468
221(d)(3)BMIR	1954	1571	501	118	952
221(d)(3)MR	1954	1993	355	34	1604
221(d)(4)	1959	6528	514	270	*5744
223(e)	1968	390	37	119	234
223(f)	1974	442	15	40	397
236	1968	4021	742	33	3246
242	1968	213	3	34	175

* This includes endorsements from 1949-1984 only. Complete actuarial data back to 1934 were unavailable.

Section 213 (CMHI)-Section 213 was enacted in 1950 to insure mortgages on cooperative housing projects. Projects occupied and managed by members of a nonprofit cooperative corporation are insured under the Cooperative Management Housing Insurance (CMHI) Fund. Other cooperative projects are insured under the General Insurance (GI) Fund. HUD has endorsed 502 projects under the CMHI Fund, with a claim rate of 4.8 percent (24 claims)—extremely low, considering most of the cases in force are approaching maturity (average age 23.9 years). Four hundred sixty-eight projects are still in force. Mortgagors under this program pay mortgage insurance premiums annually but also receive (at such times as the HUD Secretary may determine) a participating share of income in excess of expected expenses from the CMHI Fund. Section 213 is the least active of the nine programs discussed, with only three endorsements in the last five years.

Section 221(d)(3)-The Section 221(d)(3) program began in 1954. It provides insurance on mortgage loans for construction or rehabilitation of multifamily rental or cooperative housing for low- and moderate-income or displaced families. These loans may be either at a below-market interest rate (BMIR) or at a market rate. Mortgage amounts are controlled by statutory dollar limits per unit with the intention of maintaining moderate construction costs. HUD has insured 1,571 BMIR projects and 1,993 market rate projects to date.

The claim rate for the BMIR program is 31.9 percent and 17.8 for the market rate program (501 and 355 claims respectively). For the below-market program, 99.6 percent of the claims came from cases endorsed between 1954 and 1972 (499 claims). The remaining .4 percent of the claims came from cases endorsed after 1972 (two claims). For the market rate program 89.9 percent of the claims came from cases endorsed between 1954 and 1972 (319 claims). The remaining 10.1 percent of the claims came from cases endorsed after 1972 (36 claims).

The BMIR program has had the worst claim experience of any of the multifamily programs. Nine hundred fifty-two projects are still in force under Section 221(d)(3) BMIR and 1,604 under the 221(d)(3) market rate program. During the last five years there has been no activity for the BMIRs, but 240 projects were endorsed under the market rate program.

Section 221(d)(4)-Section 221(d)(4) was enacted in 1959 with the same purpose as Section 221(d)(3), but only for the market rate. The only difference between the programs is the amount of the loan that is insurable. Section 221(d)(4)s insure 90 percent of the value of the property; 221(d)(3)s insure up to 100 percent of the value for nonprofit and cooperative mortgagors. When analyzing claim rates for Section 221(d)(4), it is important to consider whether or not subsidies of any kind are involved in the mortgage insurance transaction. Subsidies reduce the likelihood that insured projects will become insurance claims. HUD has insured 6,528 projects under 221(d)(4) (57.2 percent involve a subsidy). The claim rate for the subsidized cases is 1.8 percent and for the nonsubsidized cases is 16.2 percent. Eighty-eight point nine percent of the claims on the nonsubsidized projects came from cases endorsed between 1962 and 1973; only 11.1 percent came from cases endorsed after

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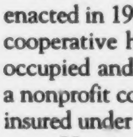

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1973. There are 5,734 projects still in force. This section has been the most active of the sections discussed, with 3,234 projects insured during the last five years.

Section 223(e)-Section 223(e) was enacted in 1968 for the purpose of insuring mortgages to purchase or rehabilitate housing projects in older, declining urban areas. There have been 390 endorsements with a claim rate of 9.5 percent (37 claims). Out of all these claims, 81.1 percent came from cases endorsed between 1968 and 1972 (30 claims). Only 18.9 percent of the claims came from cases endorsed since 1972 (seven claims). Two hundred thirty-four projects remain in force. During the last five years, 140 projects were insured.

Section 236-Section 236 was enacted in 1968 as an interest subsidy program for low-income mortgagors. The mortgagor is able to get insurance at a rate much lower than the current market rate of interest, with the government subsidizing the difference. There have been 4,021 endorsements, with a claim rate of 18.5 percent (742 claims). Of the claims, 88.1 percent came from cases endorsed between 1968 and 1972 (654 claims). The remaining 11.9 percent came from cases endorsed after 1972 (88 claims). Three thousand two hundred forty-six projects are still in force. Only four projects were insured during the last five years.

Section 242-Section 242 was established in 1968 for the purpose of insuring mortgages to construct or rehabilitate nonprofit and proprietary hospitals (including major moveable equipment). There have been 213 endorsements with a claim rate of 1.4 percent (three claims). This is certainly the lowest claim rate of all the multifamily programs. However, most of the insured cases are still in force, and each case carries an extremely high mortgage amount (average mortgage amount is $18 million) making this a potentially risky program should any cases go to claim.

Insurance is still in force for 175 projects. Fifty cases were endorsed during the last five years.

Section 223(f)-The most recently enacted program is Section 223(f), which was enacted in 1974 pursuant to Section 207. The property must satisfy all conditions for insurance under Section 207, except it must have been constructed prior to application for insurance (existing construction) and have a maximum loan-to-value ratio of 85 percent compared to 90 percent for Section 207. The maximum term of a 223(f) loan is 35 years, compared to 40 years for 207. There have been 442 endorsements, with a claim rate of 3.4 percent (15 claims). This is a low claim rate, but because the program is relatively new, it may be too soon to make a meaningful comparison to the older programs. There are 387 cases still in force and 155 endorsements in the last five years.

The oldest multifamily program is

continued

Chart 2

Multifamily Mortgages Endorsed by Section 1970-1983

	Section 207	Section 213	Section 223(e)	Section 223(f)	Section 231	Section 232	Section 236	Section 242	Section 221(d)(3)	Section 221(d)(3)	Section 221(d)(4)
									MIR	BMIR	
	1934*	1950*	1968*	1974*	1959*	1969*	1968*	1968*	1954*	1954*	1959*
1970	103	6	90	0	2	106	862	12	314	178	171
1971	97	3	25	0	2	102	1008	14	262	79	444
1972	74	0	13	0	5	70	958	18	222	24	415
1973	32	5	11	0	5	44	595	25	152	5	239
1974	11	0	3	0	5	34	238	20	61	2	110
1975	3	1	2	3	5	40	140	12	33	0	83
1976	3	1	5	64	47	69	79	29	63	0	400
1977	5	1	9	118	86	73	21	19	97	1	541
1978	2	2	28	97	49	50	7	12	85	1	642
1979	2	1	23	39	15	35	2	7	69	0	615
1980	2	1	46	28	11	23	1	10	56	0	823
1981	0	0	43	13	6	33	0	6	27	0	592
1982	0	1	14	34	2	53	1	15	76	0	934
1983	0	0	14	41	0	59	0	12	12	0	270

* Represents the year legislation establishing the program was enacted.
General insurance fund includes: Sections 207, 223(f), 231, 232, 242, 221(d)(3) and 221(d)(4).
Special Risk Insurance Fund includes: Section 223(e) and Section 236.
Cooperative Management Housing Insurance Fund: Section 213.

Section 207 (most programs were developed as spin-offs of this basic program). The program that has had the worst performance is Section 221(d)(3) BMIR. The program with the best claim record as of April 30, 1984 is Section 242, however, because of the high cost per case for Section 242, a single claim could be devastating to the insurance fund that supports it. The most active program today is Section 221(d)(4). which accounted for 85 percent of the projects endorsed in the past five years. Cases endorsed between enactment of the program and 1972 had a severely higher claim rate than cases endorsed after 1972.

(Included are three tables that more details on endorsements. terminations and insurance in force during the past 14 years.) ☐

Chart 3

Endorsements and Claims by Year

End	207		221(d)(3)MR		221(d)(3)BMIR		221(d)(4)		221(e)		236	
Year	Endorsed	Claims	Endorsed	Claims	Endorsed	Claims	Endorsed	Claims	Endorsed	Claims	Endorsed	Claims
1949	2	0										
1950	23	5										
1951	66	14										
1952	68	11										
1953	83	17										
1954	98	13										
1955	47	5										
1956	12	0										
1957	42	7										
1958	121	25	11	9								
1959	92	21	6	5								
1960	141	31	13	9								
1961	166	44	7	3	1	0						
1962	193	41	9	7	28	8	8	4				
1963	177	38	3	3	57	20	12	7				
1964	97	19	1	0	95	29	20	5				
1965	48	8	2	0	92	33	25	7				
1966	35	4	9	1	119	36	17	2				
1967	12	3	39	11	178	60	18	2				
1968	10	2	171	40	381	117	37	8	4	0	11	4
1969	17	5	192	45	330	96	72	27	60	4	98	24
1970	103	22	314	80	178	58	171	56	90	16	862	247
1971	97	19	262	69	79	36	444	142	25	7	1008	215
1972	74	16	222	37	24	6	415	120	13	3	958	164
Sub-total	1825	370	1261	319	1562	499	1239	380	192	30	2937	654
1973	32	3	152	22	5	0	239	56	11	3	595	61
1974	11	2	61	11	2	1	110	16	3	1	238	18
1975	3	0	33	2	0	0	83	3	2	0	140	4
1976	3	0	63	1	0	0	400	9	5	1	79	5
1977	5	0	97	0	1	1	541	19	9	1	21	0
1978	2	0	85	0	1	0	642	16	28	1	7	0
1979	2	0	69	0	0	0	615	7	23	0	2	0
1980	2	0	56	0	0	0	823	1	46	0	1	0
1981	0	0	27	0	0	0	592	6	43	0	0	0
1982	0	0	76	0	0	0	934	1	14	0	1	0
1983	0	0	12	0	0	0	270	0	14	0	0	0
1984	0	0	1	0	0	0	40	0	0	0	0	0
Sub-total	60	5	732	36	9	2	5289	134	198	7	1084	88
Total	1885	375	1993	355	1571	501	6528	514	390	37	4021	742

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

February 20, 1985

A resurgence of consumer spending, which began with a 10.5 percent annualized increase in retail sales in the fourth quarter of 1984, can be expected to lead to a continuation in the recent record of moderate economic growth through the first half of 1985. The second half is likely to be characterized by a slight slowing of economic growth, declining interest rates, and renewed strength in the housing sector.

Five consecutive monthly increases in personal income, an increased level of savings, lower interest rates and the upward momentum of manufacturers' orders for consumer goods over the past few months all point toward a period of increased consumer spending. The strong consumer purchase figures of November through January should carry over into the second quarter and provide the primary stimulus for the first half of 1985. Additional impetus should come from a gradually improving housing sector.

Business investment in plant and equipment should not be counted as a major contributor to economic growth this year. A recent Commerce Department survey indicates that businesses will increase capital spending in 1985 by sharply less than in 1984. The projected rise in spending of 6.8 percent after adjustment for inflation would lead to an annual rate of economic growth of less than 3 percent, unless offset by gains in other sectors. Recent weakness in contracts and orders for plant and equipment, as well as vendor performance, seem to be consistent with the results of the survey. The only bright spots here are that the lower rate of growth of capital stock will reduce demand in the credit markets and will ease the balance of payments deficit somewhat because much of the equipment is of foreign origin.

Inflation is not expected to be a problem this year. The consumer price index grew only 4 percent last year while the producers' price index grew a mere 1.8 percent and has been basically flat since April 1984. Factors keeping prices down are: moderate economic growth, increasing capability and productivity, firm monetary policy and a strong dollar. All of these factors are expected to remain in force throughout the year.

After a period of virtually no growth in the third quarter for 1984, M1 increased at an annualized rate of 10.9 percent from November to January, putting it well above the Federal Reserve's target range. However, for the entire year M1 grew 5.2 percent. A firming in the near future is inevitable, but in recent testimony before the Senate Budget Committee, Federal Reserve Chairman Paul Volcker indicated that he foresaw a monetary policy that would accommodate a 3.5 to 4 percent annual rate of economic growth.

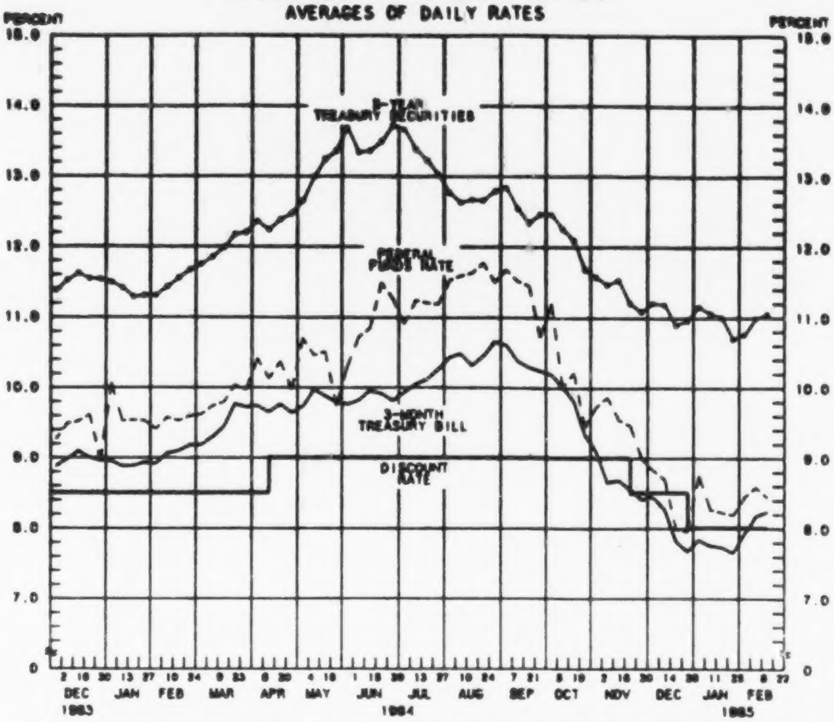
Moderate economic growth in the first half of 1985, approaching 5 percent at an annualized rate, should combine with relatively strong demand by consumers and a steady monetary policy to cause a slight upward drift of interest rates. Long-term rates should return to higher levels by June. As the rate of economic growth slows to a 3 percent annualized rate in the second half of the year, long-term interest rates should decline gradually, followed by mortgage rates.

Another good year is expected in the housing sector. Non-farm residential housing starts should reach 1.7 million units in 1985, with 1-to-4 unit residential starts approaching 1.1 million. Existing home sales should approach the very strong 2.87 million unit figure recorded in 1984, the highest level since 1980. Overall, the dollar volume of mortgage loan originations for single family houses in 1985 will probably surpass the 1984 figure by about 5 percent. The anticipated decline in mortgage rates in the second half would intensify the already perceived shift toward fixed-rate loans, which will work to the advantage of mortgage bankers.

Dr. Victor Cholewicki
Assistant Economist

SELECTED INTEREST RATES

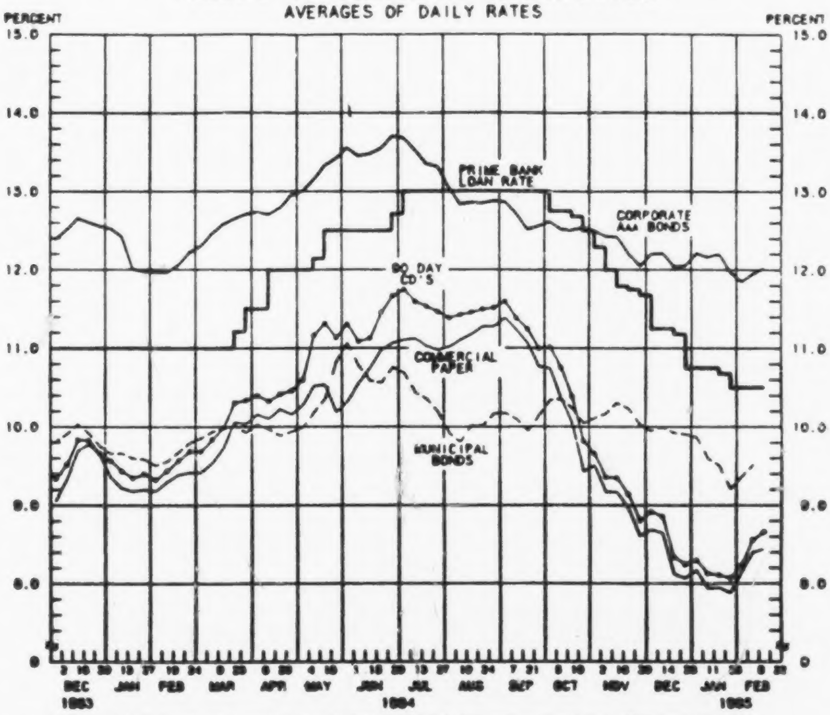
AVERAGES OF DAILY RATES



LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING: FEBRUARY 15, 1985.

YIELDS ON SELECTED SECURITIES

AVERAGES OF DAILY RATES



LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING: FEBRUARY 15, 1985.

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—MARCH 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	147	102	45	1,554	1,045	509
SEP	128	80	48	1,440	963	477	148	100	48	1,683	1,125	558
OCT	136	86	50	1,418	910	508	152	102	50	1,535	1,070	465
NOV	121	73	48	1,591	962	629	123	88	35	1,554	1,133	421
DECp	104	56	48	1,588	945	643	97	68	29	1,587	1,186	401
12months												
1984	1,642	1,036	606				1,774	1,202	542			
1983	1,595	1,026	568				1,705	1,184	522			
1982	973	887	375				1,062	746	319			
1981	969	657	314				1,086	798	289			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-res.
1983				
SEP	$157,582	$68,337	$26,614	$62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,588	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,531	73,695	30,873	74,963
AUG	181,128	71,962	32,998	76,168
SEP	181,088	70,395	32,835	77,858
OCT	184,033	69,869	33,579	80,585
NOV	184,095	69,968	32,144	81,983
DECp	187,203	69,931	30,868	86,404

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	304	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	340	6.7
AUG	273	48	346	7.3
SEP	216	53	345	6.7
OCT	234	55	350	6.5
NOV	210	41	355	7.2
DECp	174	39	358	7.0
12months				
1984	2,888	639		
1983	2,717	624		
1982	1,939	412		
1981	2,346	430		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	24	67	35	183	223	739	409
SEP	18	19	57	34	185	178	684	393	19	24	69	36	190	234	820	439
OCT	19	21	59	37	181	182	651	404	22	26	68	36	213	215	727	380
NOV	17	17	56	30	210	208	737	436	21	19	55	29	246	220	682	406
DECp	15	11	51	26	229	220	751	388	13	11	51	23	212	243	809	323
12 months																
1984	193	198	788	449					202	242	867	434				
1983	164	189	852	392					168	217	940	383				
1982	111	116	643	213					114	148	595	203				
1981	110	132	482	246					114	164	563	237				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,123	662	461	147	105	42
OCT	1,111	659	452	159	105	54
NOV	1,101	653	448	133	94	39
DECp	1,055	623	432	147	100	47
12 months						
1984				1,649	1,134	515
1983				1,387	1,018	369
1982				1,004	740	294
1981				1,062	783	280

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional							Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.			10-yr.	26-wk.			
1983																
SEP	13.55%	13.60%	13.62%	12.54%	12.85%	14.24%	12.99%	12.863%	13.213%	12.78%	12.53%	11.65%	9.15%	9.24%	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92
NOV	12.90	13.20	13.21	12.75	12.89	13.86		12.770	12.710	12.59	12.98	11.57	9.39	9.03	(8)	102
DEC	12.99	13.05	13.05	12.54	12.76	13.98		12.500	12.688	12.39	12.88	11.50	8.85	8.84	11	89

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
APR	$20,459	$6,080	$ 7,942	$ 5,681	$ 756	$14,661	$4,790	$ 6,292	$3,523	$ 56	$1,884	$890	$ 656	$288	$ 50	$3,910	$400	$ 990	$1,670	$ 650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	360	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUG	25,307	3,570	12,532	7,479	1,726	16,944	3,070	9,546	4,264	64	1,558	0	1,221	313	24	6,805	500	1,765	2,902	1,638
SEP	20,074	3,050	9,654	6,492	878	13,149	2,400	6,889	3,803	57	1,474	70	1,083	297	24	5,451	580	1,682	2,392	797
OCT	21,836p	3,510p	9,643	7,757	926	14,725p	2,920p	7,188	4,511	106	1,250p	0p	880	282	88	5,861p	590p	1,575	2,964	732

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total[1]	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
MAY	$ 78,413	$17,740	$33,906	$16,242	$10,531	$23,141	$7,470	$10,622	$3,744	$1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	90,837	8,150	51,666	17,591	13,430	17,127	2,910	9,852	2,870	1,495
OCT	89,856p	8,400p	50,624	16,996	13,836	19,151p	3,910p	10,578	3,169	1,494
NOV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
DEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
MAY	165	91	74	101	$5,959	24	$1,152	30	$1,911	47	$2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391
NOV	118	36	82	85	5,363	9	440	11	668	65	4,255
DEC	110	37	78	83	5,363	10	583	13	847	60	3,933

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
MAY	$1,534	$1,579	$20,064	$1,160	$2,881	$2,334	$2,439	$1,408	$6,687	$4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,453	2,663	2,864	2,568	2,360	2,473
NOV	2,150	1,297	34,821	1,240	3,865	4,158	2,241	1,996	2,922	1,432
DEC	2,758	1,962	36,215	1,292	3,909	4,124	4,137	3,818	3,293	2,071

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
MAY	$320	$160	$40	$120	$160	$470	$130	$ 80	$260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100	50	10	40	120	440	100	160	180
OCT	90p	40p	10p	40p	130p	400p	210p	100p	90p
NOV	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1982													
NOV	$3,800	$3,290	$ 250	$ 280	$ 3,240	$ 2,770	$ 1,190	$ 690	$ 890	$ 200	$140	$ 60	$ 270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,670	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEP	3,380	2,500	120	780	3,050	2,400	550	380	1,470	70	70	0	580
OCTp	3,420	2,740	0	750	3,510	2,920	780	440	1,700	0	0	0	590
Year to Date[5]													
1984					$44,360	$37,130	$ 8,710	$ 5,940	$22,480	$1,900	$120	$1,780	$5,320
1983					54,170	46,130	17,870	10,880	17,380	3,630	780	2,850	4,410
1982					21,290	17,460	5,700	3,450	8,310	1,230	500	730	2,600
1981					29,120	22,600	7,380	5,520	9,700	1,510	760	750	5,020

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1982														
NOV	$ 7,290	$ 5,740	$ 490	$1,060	$ 6,010	$ 3,990	$ 950	$1,070	$13,260	$ 1,490	$ 910	$10,010	$ 2,250	$1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	[illegible]	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCTp	3,910	3,240	0	670	4,830	4,090	310	430	7,660	300	530	8,400	460	740
Year to Date[5]														
1984	$41,190	$34,510	$ 80	$6,600	$47,100	$37,150	$3,190	$6,760						
1983	67,140	58,810	3,260	5,070	68,740	57,080	4,550	7,110						
1982	34,400	25,790	2,670	5,940	35,400	26,220	2,830	6,350						
1981	31,630	26,480	850	4,300	37,980	26,900	1,390	9,690						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

Year and Month	OUTSTANDING END OF MONTH INVENTORY[1]									COVERAGE[4]			SERVICING VOLUME[1]		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1982															
NOV	$ 9,140	$5,070	$1,440	$1,050	$2,580	$2,890	$400	$2,490	$1,180	55%	51%	56%	$240,710	$29,620	$42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEP	7,310	5,490	1,010	680	3,800	640	0	640	1,260	58	51	45	302,840	39,300	38,930
OCTp	7,240	5,540	1,080	750	3,710	590	0	590	1,110	64	52	45	311,760	38,490	37,260

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans
1982														
NOV	$130	$ 80	$10	$ 40	$ 30	$430	$130	$220	$ 80	$3,150	$ 840	$ 740	$1,570	$ 610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2.030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEP	100	50	10	40	120	440	100	160	180	2,150	790	180	1,180	800
OCTp	90	40	10	40	130	400	210	100	90	2,140	780	190	1,170	850

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]								NOTES PAYABLE[1]			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
NOV	$1,370	$190	$ 880	$ 300	$ 7,810	$ 860	$ 4,040	$2,910	$12,720	$1,910	$ 5,850	$ 4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,040
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEP	760	100	80	580	4,170	760	580	2,830	59,220	4,520	14,240	40,460
OCTp	690	130	160	400	3,820	860	590	2,370	54,850	4,830	14,720	35,300

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MORTGAGE BANKING

APRIL 1985

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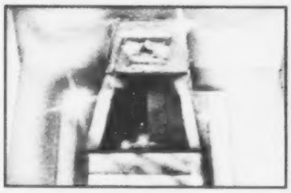

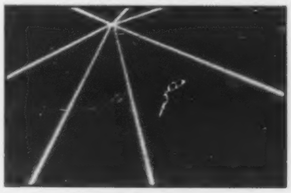

10 Human Side
32 Telecommunications
52 "Hot" Pools

The Human Side of Automation
Dorothy E. Trefts 10

MIDANET® : Strategic Planning Against the Paper War
Michael F. Coffey 22

Telecommunications: Instant Information Transport
Jack Welch 32

Protecting Your Information Lifeline
Anita M. Sweeney 38

Automation of Fannie Mae: Progress Report
Robert J. Mahn 44

Paydown Patterns and "Hot" Pools
Robert D. Johnston and Alan E. Grimshaw 52

Fair Housing: A Ways to Go
Antonio Monroig 65

Funding Techniques for ARMs
James R. Butler 68

The Last Word (CLOs)
Sigmund Anderman 79

Letters 8
Buyer's Guide 87
People 95
Advertising Index 103
Mortgage Market Trends 105

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MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

March 18, 1985

The somewhat surprisingly sharp increase in economic activity experienced in the fourth quarter of last year was the impetus needed to get the new year off to a good start and to allow the economic expansion to probably continue for a third year. More recently, however, economic growth apparently has slowed slightly due to the large trade deficit and the continuing concerns about the burgeoning federal budget deficit. Despite these ongoing problems, the economy is still expected to attain a respectable annual growth rate, of between 4.0 and 4.5 percent, for the remainder of the year.

Several key statistics seem to best reflect the underlying strength of the economy. Total consumer spending, which represents about two-thirds of total demand, rose in January 1985, for the third consecutive month. Although the latest increase of 0.6 percent is slightly smaller than the gains recorded in November and December, it still translates into an annual rate of growth of 7.2 percent. A related variable, one that tends to reflect consumer confidence and buying patterns—retail sales—reported very strong growth in February. For the month, retail sales grew by 1.4 percent. A major factor behind the strength of retail sales has been the continuing growth in real personal income. Real income has increased every month since February 1983, with December and January's increases being 0.4 percent and 0.5 percent, respectively.

Moreover, in spite of February's 0.5 percent decline in industrial production, the recent gains in real income ensure that economic growth is likely to remain buoyant over the near-term. This outlook reflects the fact that aggregate demand remains firm, with a significant amount of this demand currently being met by foreign made products. In addition, continued economic growth can be expected over the near term as the index of leading indicators rose by a robust 1.7 percent in January, the sharpest monthly increase in almost two years. The rise in the indicators was quite broad-based, reflecting increases in three-fourths of the components.

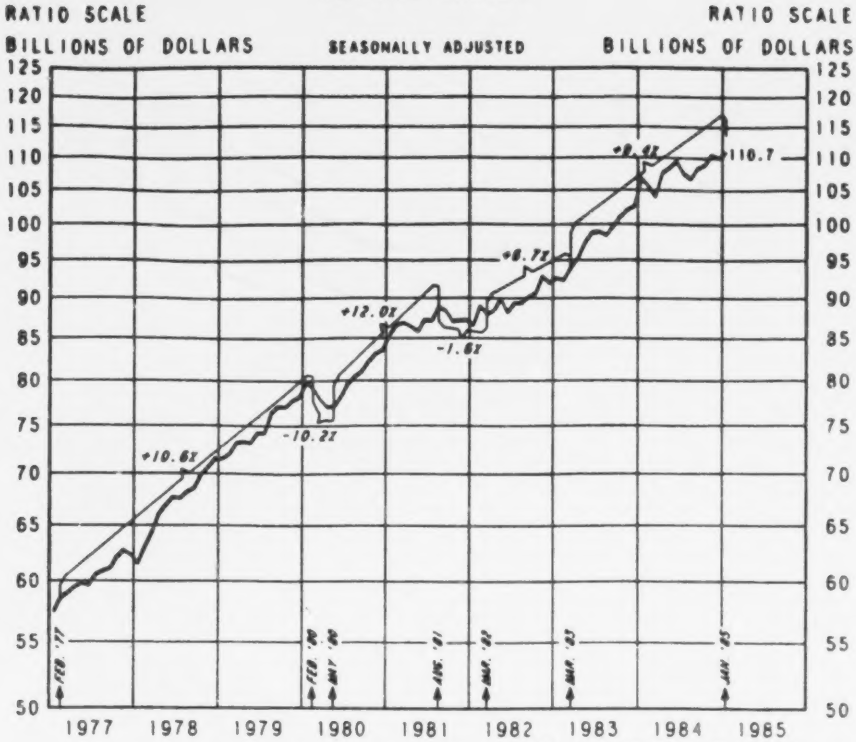
The picture for the housing sector reveals a modestly healthy image as well. Propelled by the almost steady decline in mortgage rates since late summer, housing starts rose by 15.0 percent in January. All of the increase was in the multifamily area, where starts surged by 76.0 percent reaching a seasonally adjusted annual rate of 692,000 units. This increase in multifamily building activity may reflect the realization by investors that the actual passage of a new tax bill as well as agreement on its content are a long way off. Although starts of 1-to 4-unit residential houses declined by 5.1 percent in January, the seasonally adjusted annual rate was still at a respectable 1.14 million unit level. As homebuyers begin to expect no further declines in mortgage rates over the next few months, it is likely that single-family housing activity will pick up. Support for this view may be found in January's figures on 1- to 4-unit building permit authorizations and new home sales. They were up 8.9 percent and 2.6 percent, respectively.

Thus, most sectors of the economy, including housing, share a fairly bullish outlook for the year. However, several major areas of weakness do exist within the economy, some of which are growing in magnitude and could cause a slowing in overall economic growth. One area of growing weakness is the U.S. trade sector. The 1984 trade deficit came to $123.3 billion. In January, the figure was $10.3 billion. With the trade picture expected to get worse, the 1985 merchandise trade deficit could shatter the record established just last year. A major reason for this huge trade imbalance is the extremely strong dollar. Its strength produces two related effects: it causes foreign goods to be less expensive than domestically manufacturered goods, thus increasing the demand for imports, and it raises the price of exported goods in overseas markets causing them to be less competitive. As long as real rates of interest in this country remain higher than those abroad, large net capital inflows into the United States will keep the dollar strong.

Although the strength of the dollar has had a very detrimental effect on trade, it has had a positive impact on inflation. It has been estimated that the strong dollar has knocked 2 percentage points off the overall inflation rate. The large influx of imported goods has forced both producers and retailers to restrain price increases. For example, in January, the producer price index did not increase at all and in February it fell by a seasonally adjusted 0.1 percent. In addition, in January, the consumer price index rose by only a seasonally adjusted 0.2 percent. Given the strength in demand, inflation is expected to rise slowly but steadily for the remainder of the year. Thus for 1985 as a whole, the inflation rate should hover around the 4.0 percent level reached last year. This favorable inflationary performance should have a moderating influence on the upward pressure placed on interest rates by the existing large federal budget deficit.

Robert Rosenblatt
Assistant Economist

RETAIL SALES

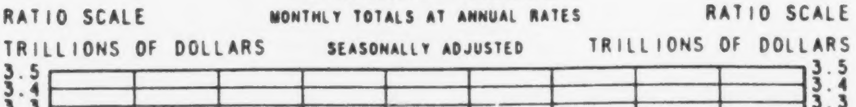


SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: DECEMBER, JANUARY ADVANCE ESTIMATE

PERSONAL INCOME



SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: JANUARY PRELIMINARY

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—APRIL 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
OCT	142	89	53	1,650	1,049	601	159	102	57	1,676	1,110	566
NOV	124	79	45	1,649	1,060	589	136	93	43	1,748	1,221	527
DEC	108	65	43	1,602	1,056	546	107	69	38	1,704	1,163	541
1984												
JAN	111	67	44	1,871	1,212	659	109	75	34	1,933	1,373	560
FEB	125	78	47	1,969	1,311	658	130	89	41	2,208	1,582	626
MAR	147	100	47	1,765	1,165	600	138	99	39	1,700	1,209	491
APR	157	105	52	1,802	1,143	659	173	121	52	1,949	1,323	626
MAY	165	109	56	1,774	1,107	667	181	127	54	1,787	1,236	551
JUN	166	102	64	1,819	1,096	723	184	121	63	1,837	1,185	652
JUL	140	89	51	1,590	997	593	162	110	52	1,730	1,112	618
AUG	142	91	51	1,508	967	541	147	102	45	1,590	1,076	514
SEP	128	80	48	1,481	994	487	148	100	48	1,669	1,116	553
OCT	136	86	50	1,436	933	503	152	102	50	1,564	1,088	476
NOV	121	73	48	1,613	968	645	126	89	37	1,600	1,158	442
DEC	105	58	47	1,627	987	640	97	69	28	1,595	1,202	393
1985												
JANp	103	63	40	1,664	1,075	589	104	64	40	1,833	1,141	692
1 month												
1985	103	63	40				104	64	40			
1984	111	67	44				109	75	34			
1983	85	56	29				92	64	29			
1982	47	28	19				48	34	14			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-res.
1983				
OCT	$151,063	$66,327	$25,807	$58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,588	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,531	73,695	30,873	74,963
AUG	181,128	71,962	32,998	76,168
SEP	181,088	70,395	32,835	77,858
OCT	184,033	69,869	33,579	80,585
NOV	184,488	70,231	32,306	81,951
DEC	186,215	70,284	31,403	84,528
1985				
JANp	190,290	711,28	31,888	87,274

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	304	4.7
1984				
JAN	178	52	301	5.4
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.5
JUN	294	58	340	6.4
JUL	287	52	340	6.6
AUG	273	48	346	7.3
SEP	216	53	345	6.6
OCT	234	55	349	6.3
NOV	210	42	353	7.2
DEC	174	38	358	7.0
1985				
JANp	190	48	357	7.0
1 month				
1985	190	48		
1984	178	52		
1983	155	44		
1982	111	25		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
SEP	18	21	74	37	168	181	797	394	15	23	84	34				
OCT	15	20	74	33	161	195	889	405	16	23	87	33	161	201	959	375
NOV	12	16	68	29	152	191	897	409	14	18	75	30	155	217	957	419
DEC	11	9	58	30	174	182	812	434	9	9	63	25	155	208	951	390
1984																
JAN	7	8	63	33	191	277	885	518	7	9	61	32	186	293	925	529
FEB	10	11	68	35	239	282	916	532	9	11	77	33	299	345	1,099	465
MAR	14	16	75	42	195	201	819	550	11	15	77	35	174	234	851	441
APR	17	21	77	42	198	240	882	482	17	21	89	46	202	246	994	507
MAY	22	22	76	45	224	220	854	476	19	27	88	47	171	242	911	463
JUN	18	22	78	48	201	232	884	502	23	32	87	42	219	277	919	422
JUL	17	21	64	38	185	235	753	417	20	23	78	40	184	239	891	416
AUG	19	20	64	39	188	197	709	414	21	24	67	35	190	225	760	415
SEP	18	19	57	34	201	176	707	397	19	24	69	36	193	235	809	432
OCT	19	21	59	37	190	180	677	389	22	26	68	36	213	219	741	391
NOV	17	17	56	30	222	220	730	441	22	20	55	30	244	232	706	418
DEC	15	11	51	26	239	240	757	391	13	11	51	22	229	231	808	327
1985																
JANp	13	8	52	31	308	214	688	454	9	9	55	31	235	284	813	501
1 month																
1985	13	8	52	31					9	9	55	31				
1984	7	8	63	33					7	9	61	32				
1983	6	6	52	21					5	6	63	18				
1982	3	3	31	11					3	3	32	10				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,123	662	461	147	105	42
OCT	1,111	659	452	159	105	54
NOV	1,101	653	448	134	95	39
DEC	1,051	620	431	150	104	46
1985						
JANp	1,037	602	435	117	83	34
1 month						
1985				117	83	34
1984				112	76	36
1983				81	60	21
1982				71	47	24

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional												
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.		Aaa Utility[7] New Issue	U.S. Gov't. 10-yr.	U.S. Gov't. 26-wk.	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
1983																
OCT	13.23%	13.52%	13.53%	12.25%	12.65%	14.11%		12.575%	12.963%	12.58%	12.43%	11.54%	8.83%	8.99%	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94%	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92
NOV	12.90	13.20	13.21	12.75	12.89	13.86		12.770	12.710	12.59	12.98	11.57	8.81	9.03	(8)	102
DEC	12.99	13.05	13.05	12.55	12.77	13.98		12.500	12.688	12.39	12.88	11.50	8.28	8.44	11	89
1985																
JAN	13.01	12.88	12.88	12.26	12.62	13.72		12.238	12.675	12.35	12.78	11.38	8.00	8.03	23	97

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
MAY	$22,111	$5,590	$ 8,348	$ 7,354	$ 819	$15,670	$4,740	$ 6,903	$3,970	$ 57	$1,397	$300	$ 549	$490	$ 58	$5,044	$550	$ 896	$2,894	$ 704
JUN	29,936	[illegible]	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	[illegible]	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	[illegible]	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	[illegible]	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,556	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	[illegible]	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	[illegible]	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	[illegible]	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUG	25,307	3,570	12,532	7,479	1,726	16,944	3,070	9,546	4,264	64	1,558	0	1,221	313	24	6,805	500	1,765	2,902	1,638
SEP	20,074	3,050	9,654	6,492	878	13,149	2,400	6,889	3,803	57	1,474	70	1,083	297	24	5,451	580	1,682	2,392	797
OCT	22,026	3,700	9,643	7,757	926	14,915	3,110	7,188	4,511	106	1,250	0	880	282	88	5,861	590	1,575	2,964	732
NOV	20,839	3,370	9,219	7,095	1,155	13,390	3,090	6,445	3,811	44	1,596	0	1,098	387	111	5,853	280	1,676	2,897	1,000

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
JUN	$ 81,963	$19,560	$35,319	$15,910	$11,147	26,002	$7,330	$12,555	$4,011	$2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	90,837	8,150	51,666	17,591	13,430	17,127	2,910	9,852	2,870	1,495
OCT	89,826	8,370	50,624	16,996	13,836	19,151	3,910	10,578	3,169	1,494
NOV	92,434	8,190	51,651	17,389	15,204	20,760	3,430	11,549	3,247	2,534
DEC	n.a.	8,700p	n.a.	n.a.	n.a.	n.a.	5,480p	n.a.	n.a.	n.a
1985										
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
JUN	233	145	85	139	$8,015	60	$2,938	24	$1,541	55	$3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	[illegible]	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391
NOV	118	36	82	85	5,363	9	440	11	668	65	4,255
DEC	110	37	78	83	5,363	10	583	13	847	60	3,933
1985											
JAN	109	39	70	93	5,973	20	1,125	11	723	62	4,125

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
JUN	$2,506	$1,333	$20,933	$1,097	$2,319	$2,358	$1,494	$1,244	$6,444	$5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,453	2,663	2,864	2,568	2,360	2,473
NOV	2,150	1,297	34,821	1,240	[illegible]	4,158	2,241	1,996	2,922	1,432
DEC	2,758	1,962	36,215	1,292	[illegible]	4,124	4,137	3,818	3,293	2,071
1985										
JAN	1,300	1,943	36,915	913	n.a.	n.a.	n.a.	n.a.	4,373	2,654

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
JUN	$430	$170	$60	$200	$120	$500	$130	$ 90	$280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100	50	10	40	120	440	100	160	180
OCT	90	40	10	40	130	400	210	100	90
NOV	170	110	20	40	240	210	140	50	20
DEC	430p	220p	30p	180p	470p	470p	270p	120p	80p
1985									
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1983													
JAN	$5,300	$4,640	$ 340	$ 240	$ 4,710	$ 3,880	$ 1,720	$ 940	$ 1,220	$ 650	$ 30	$ 620	$ 180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,670	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEP	3,380	2,500	120	780	3,050	2,400	550	380	1,470	70	70	0	580
OCT	3,600	2,920	0	750	3,700	3,110	820	470	1,820	0	0	0	590
NOV	3,890	3,610	0	280	3,370	3,090	820	470	1,800	0	0	0	280
DECp	4,880	3,860	70	770	5,250	4,090	1,280	690	2,120	80	0	80	1,080
Year to Date[5]													
1984					$53,170	$44,500	$10,850	$ 7,130	$26,520	$1,980	$120	$1,860	$6,680
1983					65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530
1982					29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230
1981					33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non.-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1983														
JAN	$ 7,010	$ 5,550	$ 880	$ 580	$ 5,140	$ 4,250	$ 80	$ 810	$14,370	$ 1,240	$ 910	$ 8,920	$ 1,380	$1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DECp	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
Year to Date[5]														
1984	$50,100	$41,420	$ 510	$8,170	$55,550	$43,820	$3,160	$ 8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] — COVERAGE[4] — SERVICING VOLUME[1]

Year and Month	Total	1-4 Units				5+ Units			Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.							
1983															
JAN	$11,220	$6,450	$2,180	$1,440	$2,830	$3,600	$470	$3,130	$1,170	43%	29%	55%	$245,140	$42,090	$41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260	58	51	45	302,840	39,300	38,930
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110	60	48	45	339,960	40,660	37,160
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140	51	43	57	350,580	39,790	32,120
DECp	6,840	6,090	1,500	980	3,610	170	0	170	580	56	96	88	321,620	33,110	30,540

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans
1983														
JAN	$100	$ 50	$20	$ 30	$ 60	$280	$120	$ 30	$130	$2,810	$ 750	$ 650	$1,410	$ 580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEP	100	50	10	40	120	440	100	160	180	2,150	790	180	1,180	800
OCT	90	40	10	40	130	400	210	100	90	2,180	780	220	1,180	870
NOV	170	110	20	40	240	210	140	50	20	3,520	1,380	410	1,730	2,260
DECp	430	220	30	180	470	470	270	120	80	9,240	3,790	790	4,660	2,440

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] — NOTES PAYABLE[1]

Year and Month	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1983												
JAN	$1,730	$100	$1,420	$ 210	$ 7,170	$ 660	$ 3,990	$2,520	$19,270	$3,320	$10,271	$ 5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,040
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEP	760	100	80	580	4,170	760	580	2,830	59,220	4,520	14,240	40,460
OCT	710	150	160	400	3,820	860	590	2,370	57,230	4,830	17,070	35,330
NOV	380	140	70	170	3,230	680	430	2,120	54,180	4,820	19,180	30,180
DECp	790	200	10	580	3,910	930	280	2,700	42,280	8,390	23,680	10,210

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Volume 45 No. 8
May 1985

36 Strategies

64 Paper Chase

74 Energy Factor

Hands-On Risk Management
Felix Beck, CMB 8

Designing ARMs for Interest Rate Uncertainty
Terrence M. Clauretie and Daniel Sklar 22

Secondary Marketing Strategies Part 1
Jess Lederman 36

Expanding the MBS Investor Base
Rebbeca Boyd 48

Special Deals for Special Needs
William T. Madden 56

Stopping the MBS Paper Chase
Amy C. Kantor and Marion C. Hardie 64

The Energy Factor in the Market Equation
John Teutsch and James R. Faulstich 74

Personnel Assets: To Have and to Hold
Barry P. Rosenthal and Peter S. Klarfeld 85

Glamorous and Termagant MBS
William Harris 97

The Last Word (Moving Money Faster)
Karl Reinlein 105

People 111 Advertising Index 116 Mortgage Market Trends 121

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MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

Early in the year, MBA economists forecasted that interest rates would rise through the spring after bottoming out in the first quarter. That forecast was based principally on the assumption that the welcome decline in interest rates during the second half of 1984, combined with the Federal Reserve Board's (Fed) move towards a more expansionary monetary policy, would lead to an acceleration in economic growth early this year. In our view, this anticipated pick up in economic activity would have fueled increases in private sector loan demand, which together with the massive borrowing needs of the federal government and an expected slowdown in foreign capital inflows, would have rapidly put upward pressure on interest rates. Indeed, interest rates did reverse their descent in late January 1985, as business loan demand accelerated sharply in the face of strong consumer spending. Between the last week in January and the second week in March, interest rates on three-month Treasury bills increased by more than 100 basis points, and yields on long-term Treasury securities rose by about 75 basis points. Accordingly, rates on conventional fixed-rate mortgages also edged up by some 25 basis points after falling by 170 basis points over the previous six months.

However, contrary to previous expectations, this deterioration in money rates was, fortunately, short-lived. It is now clear that the pace of economic activity in the first quarter was not strong enough to produce the escalation in interest rates that we had expected would last through the month of June 1985. To be sure, the annual growth rate in real GNP of 1.3 percent in the first quarter was far short of our expectations, as business investment expenditures remained flat and the trade sector deteriorated sharply under the weight of the strong dollar. As a result, the Fed's widely-anticipated move towards a more restrictive monetary policy has not taken place.

It now appears that the Fed's concerns over the economy's underlying strength have temporarily preempted fears of rising inflation. Further, the recent S&L crisis in Ohio has forced the Fed to maintain reserve growth at high enough levels to ensure that the financial system provides the necessary liquidity. Consequently, until the economy picks up steam and signs of strains on the financial system recede, the Fed will probably continue to lean towards a more accommodative monetary policy posture.

This combination of slow economic growth and a stimulative monetary policy bodes well for the near-term housing industry outlook. Interest rates on 30-year, fixed-rate mortgages (FRMs) now will probably remain just below 13.0 percent throughout the spring, and rates on adjustable rate mortgages (ARMs) will likely stay in the range of 11 to 11.5 percent. These mortgage rates are roughly 75 basis points lower than the rates we had previously anticipated would prevail in this quarter.

This interest rate scenario should support a monthly average of 1.75 to 1.80 million housing starts through midsummer, while fostering an annualized monthly average of 640,000 new home sales, and 3 million existing home sales. In such an environment, mortgage loan origination activity should be fairly strong, with fixed-rate mortgages (FRMs) accounting for the bulk of the volume as long as the rates on those instruments remain near 13 percent.

In short, the improvements in housing activity that we previously thought would be limited to the first quarter, are now likely to carry over into the current quarter. The interest sensitive sectors of the economy, such as housing, benefit the most from periods of slower growth and the accompanying moderate interest rates, as long as employment generation is substantial and inflation is subdued. Fortunately, both of the latter conditions exist at this time, giving us good reason to believe that the housing outlook over the next few months is fairly upbeat. Of course, should the economy's rate of expansion pick up sharply in this quarter, interest rates could very well resume an upward march this summer. However, it seems improbable that such an outlook is in the cards, for the trade sector is likely to restrain overall economic growth throughout most of the year.

Edison R. Zayas
Economist
April 18, 1985

MORTGAGE MARKET TRENDS—MAY 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
NOV	124	79	45	1,649	1,060	589	136	93	43	1,748	1,221	527
DEC	108	65	43	1,602	1,056	546	107	69	38	1,704	1,163	541
1984												
JAN	114	70	44	1,871	1,212	659	109	75	34	1,933	1,373	560
FEB	129	82	47	1,969	1,311	658	130	89	41	2,208	1,582	626
MAR	150	103	47	1,765	1,165	600	138	99	39	1,700	1,209	491
APR	161	107	54	1,802	1,143	659	173	121	52	1,949	1,323	626
MAY	169	113	56	1,774	1,107	667	181	127	54	1,787	1,236	551
JUN	171	104	67	1,819	1,096	723	184	121	63	1,837	1,185	652
JUL	142	92	50	1,590	997	593	162	110	52	1,730	1,112	618
AUG	142	93	49	1,508	967	541	147	102	45	1,590	1,076	514
SEP	131	82	49	1,481	994	487	148	100	48	1,669	1,116	553
OCT	137	88	49	1,436	933	503	152	102	50	1,564	1,088	476
NOV	122	73	49	1,613	968	645	126	89	37	1,600	[illegible]	442
DEC	105	58	47	1,627	987	640	97	69	28	1,630	1,231	399
1985												
JAN	104	64	40	1,676	1,085	591	105	66	39	[illegible]	[illegible]	684
FEBp	101	63	38	1,636	1,070	566	95	68	27	1,631	[illegible]	413
2 months												
1985	205	127	78				200	134	66			
1984	243	152	91				239	164	75			
1983	178	112	65				188	130	59			
1982	100	62	39				99	70	29			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	Seasonally Adjusted Annual Rate				EXISTING HOUSES[1]	NEW HOUSES		
	Total	1 Unit	2+ Units	Non-res.		Sold	Available For Sale	Months Supply at Current Rate
1983								
NOV	$154,272	$65,385	$26,525	$62,362	202	45	309	5.9
DEC	156,642	64,924	27,721	63,997	180	48	304	4.7
1984								
JAN	163,534	69,047	27,816	66,671	178	52	301	5.4
FEB	171,331	73,496	28,791	69,044	202	58	304	5.2
MAR	175,184	74,182	28,169	72,833	263	63	317	5.9
APR	176,937	74,988	27,692	74,257	269	61	325	6.0
MAY	185,108	75,810	30,588	78,710	288	59	331	6.5
JUN	181,326	75,448	29,539	76,339	294	58	340	6.4
JUL	179,531	73,695	30,873	74,963	287	52	340	6.6
AUG	181,128	71,962	32,998	76,168	273	48	346	7.3
SEP	183,717	70,395	32,835	80,487	216	53	345	6.6
OCT	181,303	69,931	33,514	77,858	234	55	349	6.3
NOV	184,345	70,231	32,273	81,841	210	42	353	7.2
DEC	186,260	70,613	31,237	84,410	174	38	358	7.0
1985								
JAN	187,734	71,784	30,558	85,392	190	46	357	7.3
FEBp	188,158	71,978	29,353	86,827	196	52	351	6.9
2 months								
1985					386	98		
1984					380	110		
1983					318	90		
1982					242	53		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
OCT	15	20	74	33	161	195	889	405	16	23	87	33	161	201	959	375
NOV	12	16	68	29	152	191	897	409	14	18	75	30	155	217	957	419
DEC	11	9	58	30	174	182	812	434	9	9	63	25	155	208	951	390
1984																
JAN	8	9	63	33	191	277	885	518	7	9	61	32	186	293	925	529
FEB	10	12	70	37	239	282	916	532	9	11	77	33	299	345	1,099	465
MAR	15	15	76	44	195	201	819	550	11	15	77	35	174	234	851	441
APR	18	22	77	43	198	240	882	482	17	21	89	46	202	246	994	507
MAY	23	23	77	46	224	220	854	476	19	27	88	47	171	242	911	463
JUN	20	23	79	49	201	232	884	502	23	32	87	42	219	277	919	422
JUL	18	21	64	39	185	235	753	417	20	23	78	40	184	239	891	416
AUG	19	21	63	39	188	197	709	414	21	24	67	35	190	225	760	415
SEP	19	19	59	34	201	176	707	397	19	24	69	36	193	235	809	432
OCT	19	21	61	35	190	180	677	389	22	26	68	36	213	219	741	391
NOV	18	18	55	31	222	220	730	441	22	20	55	30	244	232	706	418
DEC	15	12	52	26	239	240	757	391	13	11	51	22	245	228	814	343
1985																
JAN	13	8	53	31	302	213	703	458	10	8	56	32	248	270	826	505
FEBp	11	7	50	33	264	178	681	513	7	6	50	31	259	183	737	452
2 months																
1985	24	15	103	64					17	14	106	63				
1984	18	21	133	70					16	20	138	65				
1983	14	12	109	43					12	14	121	42				
1982	7	5	66	21					7	5	68	19				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,123	662	461	147	105	42
OCT	1,111	659	452	159	105	54
NOV	1,101	653	448	134	95	39
DEC	1,051	620	431	150	104	46
1985						
JAN	1,032	598	434	119	84	35
FEBp	1,008	587	421	121	79	42
2 months						
1985				240	163	77
1984				221	153	68
1983				159	113	46
1982				134	89	45

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional				ARM (5 yr. Treas.)	Conv.		Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing							10-yr.	26-wk.			
1983																
NOV	13.23%	13.48%	13.49%	12.34%	12.58%	14.15%	12.94%	12.787%	13.012%	12.62%	12.64%	11.69%	8.93%	9.10%	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92
NOV	12.90	13.20	13.21	12.75	12.89	13.86		12.770	12.710	12.59	12.98	11.57	8.81	9.03	(8)	102
DEC	12.99	13.05	13.05	12.55	12.77	13.98		12.500	12.688	12.39	12.88	11.50	8.28	8.44	11	89
1985																
JAN	13.01	12.88	12.88	12.27	12.61	13.72		12.400	12.650	12.35	12.78	11.38	8.00	8.03	23	97
FEB	13.27	13.06	13.06	12.21	12.39	14.54		12.238	12.675	12.42	n.a.	11.51	8.39	8.54	n.a.	91

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
MAY	$22,111	$5,590	$ 8,348	$ 7,354	$ 819	$15,670	$4,740	$ 6,903	$3,970	$ 57	$1,397	$300	$ 549	$490	$ 58	$5,044	$550	$ 896	$2,894	$ 704
JUN	29,937	7,120	10,936	10,355	1,526	20,993	5,950	8,683	6,268	92	2,622	910	916	646	150	6,322	260	1,337	3,441	1,284
JUL	25,067	5,810	10,275	7,987	995	19,147	5,450	8,297	5,336	64	1,177	30	759	317	71	4,743	330	1,219	2,334	860
AUG	30,175	5,730	11,291	11,275	1,879	21,514	5,000	9,197	7,260	57	1,699	220	740	497	242	6,962	510	1,354	3,518	1,580
SEP	25,035	4,470	10,331	8,819	1,415	17,216	3,660	8,127	5,380	49	1,548	220	774	418	136	6,271	590	1,430	3,021	1,230
OCT	21,917	4,300	8,586	7,803	1,228	15,277	3,630	6,823	4,777	47	1,486	170	759	395	162	5,154	500	1,004	2,631	1,019
NOV	21,342	5,340	8,202	6,443	1,357	14,868	4,690	6,317	3,811	50	1,661	100	783	559	219	4,813	550	1,102	2,073	1,088
DEC	26,120	4,970	10,553	7,459	3,138	16,105	4,860	7,441	3,702	102	2,230	110	996	825	299	8,355	570	2,116	2,932	2,737
1984																				
JAN	21,138	4,870	7,818	7,695	755	14,144	4,190	5,839	4,067	48	1,903	320	938	598	47	5,091	360	1,041	3,030	660
FEB	20,182	4,316	7,721	7,184	967	12,916	3,350	5,724	3,800	42	1,850	570	739	393	148	5,416	390	1,258	2,991	777
MAR	24,030	4,690	10,158	8,087	1,095	15,643	3,770	7,414	4,374	85	2,132	370	1,052	617	93	6,255	550	1,692	3,096	917
APR	22,959	5,870	11,261	7,317	1,511	18,027	4,940	8,507	4,508	72	1,986	410	1,100	290	186	5,946	520	1,654	2,519	1,253
MAY	28,632	5,230	13,393	8,768	1,241	20,282	4,480	10,454	5,244	104	1,971	140	1,255	481	95	6,379	610	1,684	3,043	1,042
JUN	30,866	5,490	14,485	8,896	1,995	21,438	4,680	11,054	5,652	52	1,987	20	1,343	482	142	7,441	790	2,088	2,762	1,801
JUL	25,206	3,760	12,979	7,297	1,170	18,019	3,330	10,213	4,404	72	1,592	0	963	553	76	5,595	430	1,803	2,340	1,022
AUG	25,563	3,570	12,532	7,735	1,726	17,035	3,070	9,546	4,355	64	1,567	0	1,221	322	24	6,961	500	1,765	3,058	1,638
SEP	20,283	3,050	9,654	6,701	878	13,213	2,400	6,889	3,867	57	1,483	70	1,083	306	24	5,587	580	1,682	2,528	797
OCT	22,290	3,700	9,643	8,021	926	14,998	3,110	7,188	4,594	106	1,260	0	880	292	88	6,032	590	1,575	3,135	732
NOV	20,839	3,370	9,219	7,095	1,155	13,390	3,090	6,445	3,811	44	1,596	0	1,098	387	111	5,853	280	1,676	2,897	1,000

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
JUL	$ 78,741	$17,090	$36,852	$12,651	$12,148	26,571	$6,840	$14,092	$3,475	$2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	90,837	8,150	51,666	17,591	13,430	17,127	2,910	9,852	2,870	1,495
OCT	89,826	8,370	50,624	16,996	13,836	19,151p	3,910	10,578	3,169	1,494
NOV	92,434	8,190	51,651	19,389	15,204	20,760	3,430	11,549	3,247	2,534
DEC	n.a.	8,700p	n.a.	n.a.	n.a.	n.a.	5,480p	n.a.	n.a.	n.a
1985										
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

APPLICATIONS RECEIVED UNITS			INSURED							
			Total		FHA (203)		VA		Private	
Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
182	102	80	115	$6,863	38	$1,854	20	$1,224	57	$3,785
205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
121	45	76	109	7,017	14	753	24	1,544	71	4,720
123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
167	48	119	110	7,103	16	882	17	1,114	77	5,107
174	45	129	126	8,051	17	924	17	1,081	92	5,965
159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
148	32	116	135	8,872	16	834	18	1,131	101	6,907
136	30	106	129	8,435	17	904	16	998	96	6,533
116	28	88	100	6,543	14	733	12	775	74	5,035
136	38	98	106	6,866	12	614	14	861	80	5,391
118	36	82	85	5,363	9	440	11	668	65	4,255
110	37	78	83	5,363	10	583	13	847	60	3,933
109	37	70	93	5,973	20	1,125	11	723	62	4,125
n.a.	40	n.a.	n.a.	n.a.	10	579	13	867	n.a.	n.a.

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
JUL	$1,198	$1,358	$22,313	$1,651	$4,621	$4,671	$1,523	$1,491	$5,468	$4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,453	2,663	2,864	2,668	2,360	2,473
NOV	2,150	1,297	34,821	1,240	3,865	4,158	2,241	1,996	2,922	1,432
DEC	2,758	1,962	36,215	1,292	3,909	4,124	4,137	3,818	3,292	2,071
1985										
JAN	1,300	1,943	36,915	913	4,142	4,264	2,197	1,984	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,431	3,622	3,247	2,425	4,182	2,700

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
Construction				Land Loans				
Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
$120	$ 60	$10	$ 50	$ 40	$180	$ 80	$ 30	$ 70
110	70	10	30	80	200	120	20	60
160	70	20	60	50	440	100	60	280
130	60	20	50	90	350	90	140	120
140	70	10	60	90	390	150	120	120
570	180	50	340	250	560	130	190	240
180	70	20	90	140	460	130	100	230
150	70	10	70	90	280	80	90	110
190	80	30	80	220	350	120	80	150
200	90	30	80	100	620	140	360	120
180	80	10	10	160	420	190	130	100
380	120	10	250	360	760	120	180	460
280	70	10	200	180	790	130	210	450
100	60	0	40	90	410	110	130	170
100	50	10	40	120	440	100	160	180
90	40	10	40	130	400	210	100	90
170	110	20	40	240	210	140	50	20
430p	220p	30p	180	470p	470p	270p	120p	80p
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Fedetal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1983													
JAN	$5,300	$4,640	$ 340	$ 240	$ 4,710	$ 3,880	$ 1,720	$ 940	$ 1,220	$ 650	$ 30	$ 620	$ 180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,670	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEP	3,380	2,500	120	780	3,050	2,400	550	380	1,470	70	70	0	580
OCT	3,600	2,920	0	750	3,700	3,110	820	470	1,820	0	0	0	590
NOV	3,890	3,610	0	280	3,370	3,090	820	470	1,800	0	0	0	280
DECp	4,880	3,860	70	770	5,250	4,090	1,280	690	2,120	80	0	80	1,080
Year to Date[5]													
1984					$53,170	$44,500	$10,850	$ 7,130	$26,520	$1,980	$120	$1,860	$6,680
1983					65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530
1982					29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230
1981					33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non.-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1983														
JAN	$ 7,010	$ 5,550	$ 880	$ 580	$ 5,140	$ 4,250	$ 80	$ 810	$14,370	$ 1,240	$ 910	$ 8,920	$ 1,380	$1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DECp	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
Year to Date[5]														
1984	$50,100	$41,420	$ 510	$8,170	$55,550	$43,820	$3,160	$ 8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

Notes: [1] All dollar amounts are in millions.
[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3] Series labeled non-residential are also inclusive of farm data.
[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] / COVERAGE[4] / SERVICING VOLUME[1]

Year and Month	OUTSTANDING END OF MONTH INVENTORY[1]									COVERAGE[4]			SERVICING VOLUME[1]		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]	1-4 Units	5+ Units	Non-res.[3]
1983															
JAN	$11,220	$6,450	$2,180	$1,440	$2,830	$3,600	$470	$3,130	$1,170	43%	29%	55%	$245,140	$42,090	$41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260	58	51	45	302,840	39,300	38,930
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110	60	48	45	339,960	40,660	37,160
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140	51	43	57	350,580	39,790	32,120
DECp	6,840	6,090	1,500	980	3,610	170	0	170	580	56	96	88	321,620	33,110	30,540

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-res.[3]	Total	1-4 Units	5+ Units	Non-res.[3]	Land Loans
1983														
JAN	$100	$ 50	$20	$ 30	$ 60	$280	$120	$ 30	$130	$2,810	$ 750	$ 650	$1,410	$ 580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEP	100	50	10	40	120	440	100	160	180	2,150	790	180	1,180	800
OCT	90	40	10	40	130	400	210	100	90	2,180	780	220	1,180	870
NOV	170	110	20	40	240	210	140	50	20	3,520	1,380	410	1,730	2,260
DECp	430	220	30	180	470	470	270	120	80	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]

Year and Month	Issued During Month				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]
1983								
JAN	$1,730	$100	$1,420	$ 210	$ 7,170	$ 660	$ 3,990	$2,520
FEB	1,020	130	420	470	8,830	810	4,570	3,450
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580
APR	1,350	140	500	710	8,400	980	4,900	2,520
MAY	1,070	120	610	290	6,280	650	3,900	1,730
JUN	1,410	160	550	700	6,780	970	3,710	2,100
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590
AUG	900	180	100	620	5,620	940	2,480	2,200
SEP	1,100	100	690	310	5,210	870	2,190	2,150
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230
1984								
JAN	1,080	80	400	600	10,900	800	7,440	2,660
FEB	1,300	90	530	680	9,500	750	5,650	3,100
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030
APR	3,940	120	3,260	560	10,080	960	5,780	3,340
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090
JUL	1,730	130	60	1,540	4,090	870	470	2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DECp	790	200	10	580	3,910	930	280	2,700

NOTES PAYABLE[1]

Year and Month	End of Month Balances			
	Total	Comm. Paper	To Parent	To Others
1983				
JAN	$19,270	$3,320	$10,271	$ 5,680
FEB	20,070	3,530	8,370	8,170
MAR	20,640	3,960	9,510	7,170
APR	20,120	3,330	10,200	6,590
MAY	[illegible],640	3,780	10,460	11,400
JUN	36,620	4,490	10,570	21,560
JUL	36,150	4,410	14,100	17,640
AUG	35,370	8,920	10,920	15,530
SEP	41,300	3,110	9,820	28,370
OCT	30,150	2,760	8,870	18,520
NOV	32,200	3,690	10,520	17,990
DEC	29,590	2,770	7,140	19,680
1984				
JAN	31,180	3,900	9,810	17,470
FEB	23,480	3,710	8,530	11,240
MAR	42,850	5,060	9,130	28,660
APR	27,280	3,190	15,280	8,810
MAY	35,190	4,690	21,880	8,620
JUN	31,530	4,910	12,610	14,040
JUL	41,960	6,190	12,710	23,060
AUG	47,940	5,750	13,220	28,970
SEP	59,220	4,520	14,240	40,460
OCT	57,230	4,830	17,070	35,330
NOV	54,180	4,820	19,180	30,180
DECp	42,280	8,390	23,680	10,210

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JUNE 1985

MORTGAGE BANKING

STANDING OUT/PAGE 46

HOW/PAGE 41

MATCHED ASSETS
YIELD
CASH
CASH
CLEARINGHOUSE/PAGE 79

ARTICLES

PAGE 9
"RISKY BUSINESS"
By David J. Gallitano
If the mortgage insurance industry is to continue to serve the needs of homebuyers and lenders, price structures more in tune with current risks have to be accepted. If the mortgage banking industry chooses to "bury its head in the sand" today, the consequences could be disastrous.

PAGE 19
SECONDARY MARKETING STRATEGIES PART 2
By Jess Lederman
Lenders' tactics may vary but their goal usually remains the same: To minimize risk and maximize profits from secondary marketing strategies. Four mini case-studies illustrate the strategies.

PAGE 26
SINGING THE WORK-OUT BLUES
By Dudley Omura
Financial institutions can no longer assume that development expertise will be provided by outside sources. More projects are ending up solely in the hands of the lending institution, which is forced to learn the development profession by trial and error.

PAGE 32
DAVY CROCKETT DOESN'T LIVE HERE ANYMORE
By Jerry Rouleau
Log cabins are now referred to as log "homes," and lenders are starting to view them as viable forms of housing. Modern log home technology now replaces the stereotypical drafty, crude and musty structures of the past.

PAGE 41
HOW TO INSURE QUALITY
By Robert J. Reid
During these rapidly changing financial times, lenders are always interested in ways to better protect their investments. Home Owners Warranty tries to provide an added edge of protection.

PAGE 46
STAND OUT FROM THE CROWD
By Joseph W. Dans
The successful mortgage banker is the one who is oriented to inform and not just promote. What are the extra steps that can help a firm come out ahead of the rest of the pack?

PAGE 55
WHAT'S WRONG WITH THIS PICTURE?
By Charles G. Wilson and Richard E. Mason
Upon closer review, the Keystone resort project turned out to be a maze of marketing mix-ups. By using a marketing approach, communication consultants were able to solve the problem and create new opportunities.

PAGE 63
HUD: GOING BY THE NUMBERS
By Rick Calvert
A close-up on multifamily claim experience that lenders, insurers and investors will find valuable.

PAGE 79
THE LAST WORD (MORTGAGE EXCHANGE CORPORATION)
By Curtis Beerman
This clearinghouse creates a secondary market for income property loans, mortgage portfolio marketability and increased liquidity.

DEPARTMENTS

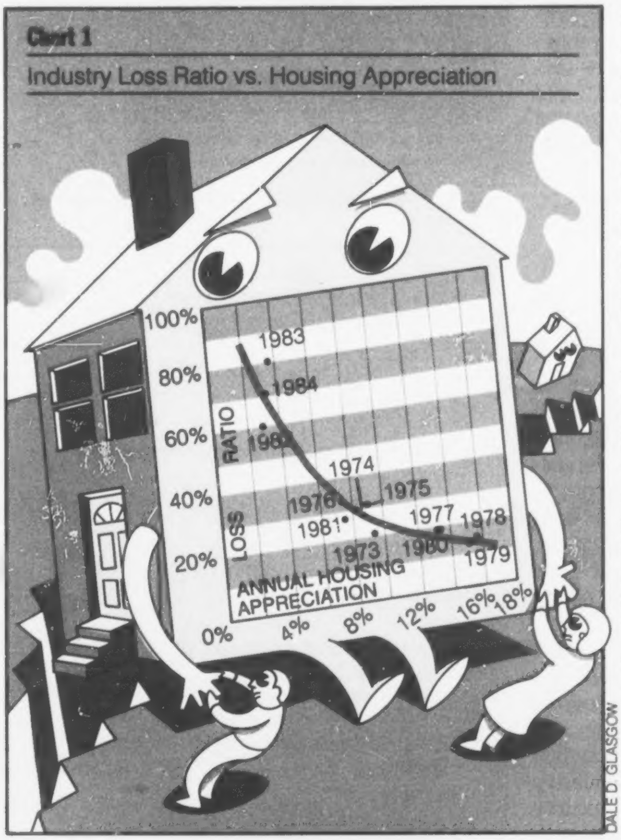
PEOPLE 85
BOOKS 94
LETTERS 97
AD INDEX 102
MORTGAGE MARKET TRENDS 105
SECONDARY MORTGAGE MARKETS 106

"Risky Business"

The recent changes in private mortgage insurance premium rates and underwriting guidelines have prompted strong reactions from every segment of the mortgage lending industry

Chart 1

Industry Loss Ratio vs. Housing Appreciation



DALE D. GLASGOW

By David J. Gallitano

THE RECENT CHANGES in private mortgage insurance premium rates and underwriting guidelines have prompted strong reactions from every segment of the mortgage lending industry. Some have acknowledged the necessity of these changes, while others have labeled them unfair and excessive—almost no one has been without an opinion on the subject.

Nevertheless, the fact remains that the mortgage lending industry has undergone dramatic changes since the advent of modern private mortgage insurance. What are the changes that have taken place? How have private mortgage insurers reacted?

When the mortgage insurance industry was reborn in 1957, the menu of available mortgage instruments was not extensive: it began and ended with the standard fixed-rate, fixed-payment mortgage, which usually had a 25- or 30-year term. The economy was strong, and the economic outlook was positive; interest rates and inflation were low. It was in this climate that mortgage insurance premium rates were established that were to remain virtually unchanged for a full 27 years.

Despite the lack of change in mortgage insurance premiums, this interval saw radical changes in almost every other aspect of mortgage lending. "Volatility" replaced "stability" as the adjective of choice in describing both mortgage lending and the economy. Mortgage lenders responded with financing innovations that expanded the mortgage menu to include a veritable alphabet soup of mortgage instruments—VRMs (variable rate mortgages), RRMs (renegotiable rate mortgages), PAMs (pledged account mortgages), GPMs (graduated payment mortgages), ARMs (adjustable rate mortgages), GEMs (growing equity mortgages) and others—in addition to fixed-rate, fixed-payment mortgages. Private mortgage insurers responded to these radical changes by expanding both the types and depth of coverage offered to lenders, but they did not alter the basic premium rate structure. Premium rate schedules for the additional coverages were based on the original rate established for fixed-rate, fixed-payment 30-year mortgages.

Changes in the industry

Among the changes that have taken place in recent years, the reduced rate of housing appreciation and slowed equity growth have had a particularly pronounced effect on the level of risk involved in insuring residential mortgages. Chart 1 illustrates the radical slowing of housing appreciation since the late 1970s and its effect on the private mortgage insurance industry's loss ratios. In 1978, the rate of housing appreciation approached 16 percent per year. At this extremely high level, a borrower having trouble meeting his or her monthly mortgage obligation could sell the house at a price substantial enough to pay off the debt, and perhaps make a small amount of profit. Selling the property thus offered a viable alternative to default. As would be expected under such circumstances, mortgage insurance losses were low. As the rate of housing appreciation decreased in the 1980s, the loss ratio for the mortgage insurance industry climbed steadily and at present hovers around 70 percent.

The reduced rate of equity growth has also had a negative effect on the level of risk borne by the mortgage insurer. In 1977, a borrower with 5 percent equity in a new home could expect the equity to increase eight times within four years. By 1981, the same borrower could expect the equity to increase just slightly over three times in a four-year period. The examples in Chart 2 illustrate this situation. Slow equity growth, by keeping the borrower's investment in the property at a nominal level, reduces the incentive to continue to support the mortgage debt. This is especially true when the monthly mortgage payment is prone to increases, as with, for example, ARMs and GPMs.

New character

The comprehensive changes that have occurred over the past 20 years have altered the character of mortgage lending. These factors, in conjunction with society's more casual attitude toward borrower default, are the impetus for the present fine-tuning of underwriting guidelines and increases in premium rates. Chart 3 summarizes some of the more important changes that have taken place since the 1960s.

CHART 2

95% LTV Fixed-rate—Fixed-payment Loan Originated 1977			95% LTV Fixed-rate—Fixed-payment Loan Originated 1981		
Yr	PMT Income Ratio[1]	% Equity[2]	Yr	PMT/Income Ratio	% Equity[2]
1	25%	5%	1	33%	5%
2	22%	19%	2	32%	8%
3	20%	31%	3	30%	11%
4	18%	40%	4	28%	16%

[1] *Based on average change in per capita income*
[2] *Based on house sales price appreciation*

CHART 3

	1960s	1980s	% Change
Average Mortgage Contract Rate	5.8%	12.5%	+115%
Underwriting Ratios:			
Housing Pmt./Income-FRFP[1]	22%	33%	
Housing Pmt./Income-NFP[2]	—	28%	
Total Debt/Income-FRFP	26%	38%	
Total Debt/Income-NFP	—	36%	
Conventional Mtg. Delinquency Rates:			
Total Past Due	1.47%	3.69%	+151%
In Foreclosure	.07%	.13%	+86%
Mortgage Instrument Mix:			
Fixed Rate, Fixed Payment	100%	45%	
Fixed Rate, Non-Fixed Pmt.	—	9%	
ARMs	—	45%	
Other	—	1%	
Primary Default Driver:			
Unemployment Rate	4.3%	7.6%	+77%
Housing Appreciation Rates:			
1960s	3.5%		+177%
1970s	9.7%		−43%
1980s	5.5%		

[1] *FRFP = Fixed-rate, fixed-payment mortgage*
[2] *NFP = Non-fixed payment mortgage*

The implication of such fundamental change is clear: if the mortgage insurance industry is to continue to serve the needs of homebuyers and lenders, price structures more in line with current risks must be accepted. If the industry chooses to bury its head in the sand today, the consequences could be disastrous. Unlike many branches of the insurance industry, mortgage guaranty insurance has no consortium or industry reserve fund backing up the financial guarantee provided by the individual insurer. This means that the ability of a mortgage insurance company to pay claims is based solely on the financial strength of that particular company, and in the case where a parent company backs the insurer's policies, on the strength of the parent company as well. If an insurer is unable to meet its claims' paying obligations, lenders insured by that company are without recourse. The recently established premium rate structure will, of course, strengthen the claims' paying ability of the industry as a whole, but to maximize security the lender must do some homework. Lenders should closely examine each insurer and make sure that any company with which they do business has the financial strength and solidity to fully meet its claims' obligations.

Changes in rates

As the variety of instruments and the volatility of the economy increased in recent years, it became apparent that the risk associated with insuring *all* types of mortgage loans had undergone a dramatic change. Traditionally, the claims incidence ratio (claims paid to loans insured) was 1 percent for fixed-rate, fixed-payment mortgages. In today's volatile economic environment, this benchmark has proven invalid even for fixed products. Portfolio studies conducted by GEMICO during the latter half of 1984 indicated that the claims incidence on fixed-payment products was 2 percent—double the traditional level. Claims incidence on non-fixed-payment products range from 3 to 4 percent, or about twice those of fixed-payment loans. Thus, the premium rate increase was a necessary and logical response to changing lending and economic environments.

It may be argued that because non-fixed payment mortgages are a recent phenomenon, loss ratios for such loans are based on a limited population and are therefore likely to change significantly over time. It is no doubt a valid argument, but more important than the fact that the loss ratios will change is how they will change.

Because interest rate adjustments on non-fixed rate loans are tied to market-related indices, the movement

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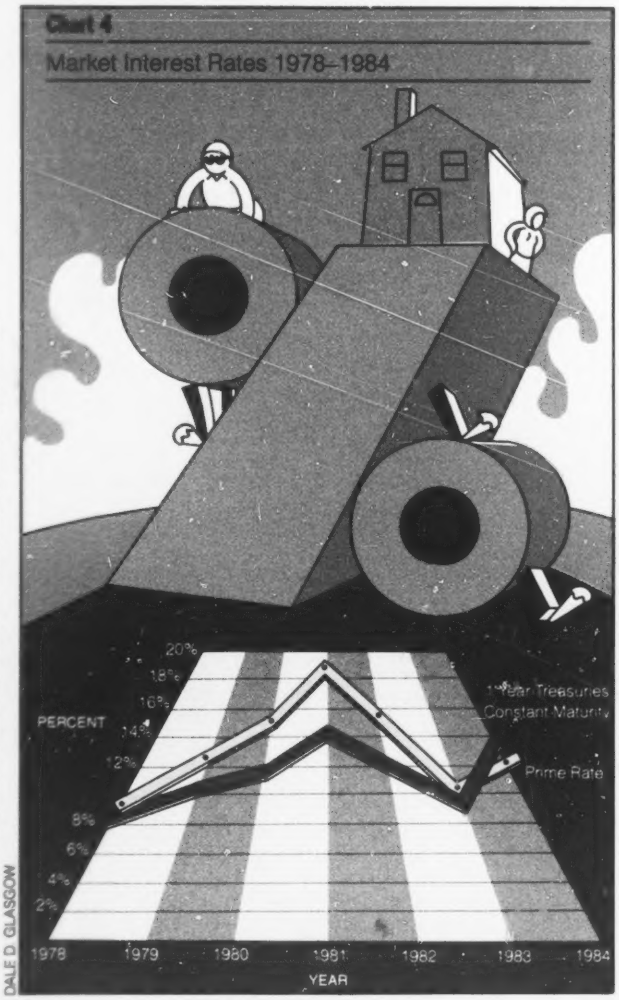


Chart 4

Market Interest Rates 1978–1984

DALE D. GLASGOW

of market interest rates will determine payment changes. As shown in Chart 4, market interest rates—as represented by the Prime Rate and the most commonly used ARM index—have exhibited a marked downward trend since 1981. Even with the slight increase noted in 1984, rates are still well below 1981 levels. Given these facts, ARM interest rate adjustments since 1981 should have been downward, and despite the 1984 upturn, interest rates on these loans should be below what they were when they were originated. Monthly payments, therefore, should have decreased. Payment reductions would not be causal to increases in defaults and claims, and may even tend to reduce them. As interest rates increase in 1985 (as most analysts have forecast) and in the coming years, so will adjustable rate mortgage payments—and logically. These increases will raise the incidence of defaults and claims due to payment unaffordability. There is high probability that future loss ratios will prove significantly *greater* than current levels.

The fact that payment increases on fixed-rate, non-fixed payment mortgages are completely independent of changes in market interest rates does not lessen the possibility of default for these mortgages. Even if market interest rates were to experience a sharp decrease, payments on fixed-rate mortgages with buydowns and graduated payment features would continue to increase as scheduled.

There are other factors that contribute to the increased risk associated with non-fixed payment mortgages. For instance, the potential exists for increased consumption of non-housing related goods and services by a borrower whose mortgage payments are artificially low due to "teaser" rates, initial rate discounts or other factors. Such a borrower, instead of planning on the inevitable payment increases, may ignore them and is more likely to increase consumption of other goods. Thus, there is a greater risk of the borrower experiencing difficulty in meeting future mortgage payments.

Default incidence can also be expected to increase in the event of 1) income growth that does not keep pace with payment increases, 2) general inflation with accompanying across-the-board price increases and 3) property appreciation that is insufficient to offset the accumulation of negative amortization or to counterbalance inflated original appraisals. All these situations are possible and even quite probable, given the volatile nature of the recent economic environment.

The risk associated with insuring mortgage loans is greater today than at any time since 1957. It is not reasonable to expect that premium rates established in 1957 will provide compensation adequate to justify accepting today's higher levels of risk. The recent premium rate adjustments, while not initially popular, will enable insurers to continue to limit lender exposure in high risk environments, and by extension, will ensure that affordable mortgage financing remains available.

Changes in underwriting

The mortgage insurance industry's former underwriting guidelines, like its antiquated premium rate structure, acknowledged neither the fundamental changes that had occurred in the mortgage lending industry nor the accompanying increase in the level of risk associated with most mortgage instruments. These underwriting guidelines, by not addressing the full range of innovative features that distinguish modern mortgage instruments, eventually became inadequate as risk management tools.

To effectively *manage* risk, private mortgage insurers had to develop underwriting guidelines that accurately reflect the level of risk assumed when insuring instruments that feature payment and/or interest rate adjustments. Prior to the late 1970s, loan product guidelines were unnecessary due to mortgage instrument homogeneity.

In view of recent publicity, it must be emphasized that the revised guidelines are not in any way an attempt to "standardize" alternative mortgage instruments. Rather they are an attempt to keep the features of such loans within insurable limits. As most lenders would agree, there are loans that are intrinsically uninsurable. For instance, how many lenders would be willing to self-insure and hold in portfolio an ARM with a "teaser" rate that is 350 basis points below the market rate, if the borrower will be unable to make his payments once they are adjusted to the fully indexed accrual rate? Very few indeed. The example given in Chart 5 demonstrates the dramatic payment increases possible in such a situation. It is important to note that while the interest rate cap does apply to the initial adjustment in Chart 5, this is not necessarily typical of all capped loans. In some instances, caps *do not* apply to the initial interest rate adjustment.

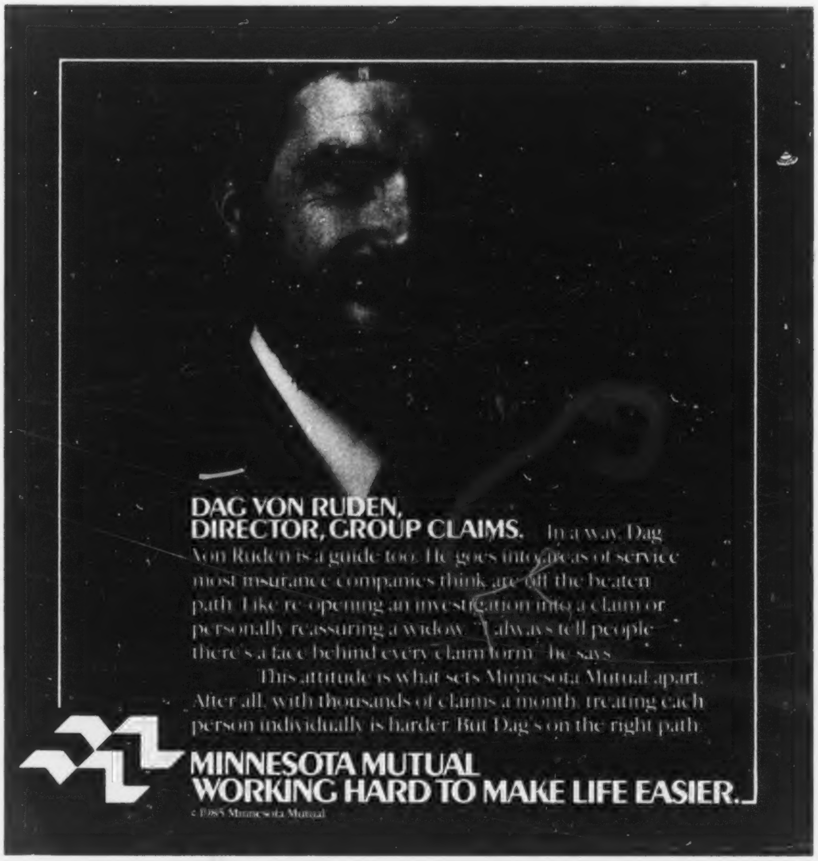
Despite the presence of an interest rate cap, this borrower's housing payment has increased by more than 16 percent from Year 1 to Year 2. If the cap did not apply to the initial adjustment, the borrower would face a second year payment of $813.79—an increase of nearly 29 percent. Because the initial interest rate is so heavily discounted, the potential for disaster would only be mitigated by a substantial reduction in the index to which the accrual rate is tied. Indeed, in order for a payment increase not to occur, the index rate would have to fall 3.5 percentage points. Such a drastic drop in interest rates is not very likely.

Guidelines: borrower qualification

In addition to establishing loan product underwriting guidelines, adjustments were made to the traditional guidelines utilized to underwrite the borrower's capacity to manage his mortgage debt and the borrower's creditworthiness. GEMICO, for instance, reduced the maximum mortgage payment and debt ratios from 33/38 percent to 28/36 percent on all mortgages that do not have fixed payments. This change was made to ensure that there is some margin or cushion for the non-fixed payment mortgagor to manage either scheduled, probable or potential payment increases that could or would occur very early during the loan term.

CHART 5

Teaser Rate: 10.875
Accrual Rate: 14.375
Index: 12.000
Margin: 2.375
Initial Rate Discount: 350 bp
Loan Amount: $67,000
Rate Cap: 2 percent
(applies to 1st adjustment)
1st Yr Housing Payment: $631.74
2nd Yr Housing Payment: $733.42
Change: 16 percent


**DAG VON RUDEN,
DIRECTOR, GROUP CLAIMS.** In a way, Dag Von Ruden is a guide too. He goes into areas of service most insurance companies think are off the beaten path. Like re-opening an investigation into a claim or personally reassuring a widow. "I always tell people there's a face behind every claim form," he says.

This attitude is what sets Minnesota Mutual apart. After all, with thousands of claims a month, treating each person individually is harder. But Dag's on the right path.

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WORKING HARD TO MAKE LIFE EASIER.**

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Likewise, larger downpayments are now required of borrowers financing their homes with loans that have immediate negative amortization. This change was premised upon the fact that the larger the borrower's equity position in the property, the greater the stimulus to continue to meet the mortgage obligation.

Limitations on the use of gift letters as downpayments, co-borrower and cosigner support, as well as increases between prior housing costs and new mortgage payment levels have all been scrutinized and adjusted to conform to the new market environment.

Unwillingness on the part of lenders and insurers to act in a reasonable and responsible manner may, in fact, encourage a situation that no one would welcome: legislated standardization of alternative mortgage instruments.

Market need

But, the question arises: do alternative mortgage instruments constitute a significant enough portion of origination volume to justify the changes made by mortgage insurers? There is strong evidence that they do. As illustrated in Chart 6, more than half of GEMICO's new insurance written in 1984 was on non-fixed payment mortgage instruments, the majority of which were ARMs.

Further evidence of this trend is found in GEMICO's Adjustable Type Mortgage Survey 5, conducted during 1984. Survey results show that the composition of mortgage origination volume in the past year alone has undergone a distinct shift toward non-fixed products.

The survey indicates that of the 97 percent of mortgage servicers that offer standard fixed-rate, fixed-payment mortgages (FRFP), 53 percent said FRFPs accounted for less than 25 percent of their conventional loan volume. Similarly, while 66 percent of the S & Ls offered FRFPs, 45 percent said that such mortgages accounted for less than 25 percent of their conventional volume.

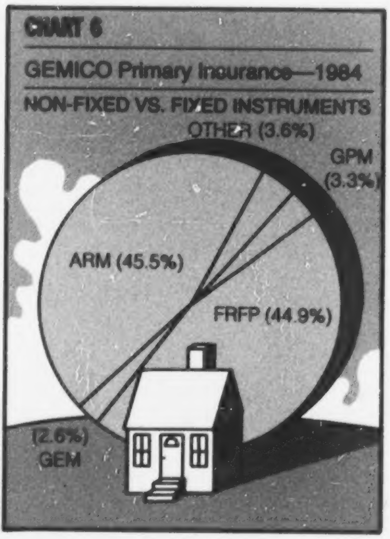
Rate fluctuations, however, may periodically cause the FRFP to regain some popularity. For instance, as interest rates have declined since the latter part of the last year, the interest rate differential between ARMs and FRFPs has narrowed, and FRFP originations have experienced a resurgence. Nevertheless, the trend toward ARM lending is likely to continue.

Thus, the evidence clearly indicates that while the volume of non-fixed payment mortgage originations is already quite large, it has the potential to increase in the near future. The fact that non-fixed rate mortgages comprise such a large proportion of total mortgage originations supports the wisdom and necessity of the recent changes undertaken by mortgage insurers.

In addition to a growing dominance of alternative mortgage instruments, a shift has been seen in private mortgage insurers' portfolios that further supports these changes. In 1978 only 30 percent of the total number of loans insured fell into the 91–95 percent loan-to-value (LTV) category. In 1984 that percentage reached 53 percent. This concentration of loans in the known highest risk LTV category stimulates the need for change in risk management tools and procedures.

Role of private mortgage insurers

Since their rebirth in the 1950s, private mortgage insurance companies have played a supportive role in the mortgage lending industry. This role has become particularly important since the advent of high loan-to-value financing, increased securitization of mortgages for sale to non-traditional investors in the capital markets and alternative mortgage instruments.



DALE D. GLASGOW

Because of the increased level of risk involved, few lenders would be both willing and able to self-insure large numbers of mortgages with loan-to-value ratios of 90 percent or more. In today's environment, however, a very significant proportion of homebuyers require these loans in order to purchase a home. If lenders were forced to retain all of the risk associated with high LTV loans, a good deal of their current business would be too risky to undertake. This could result in a general slump in the housing industry and extremely disgruntled consumers.

In addition to facilitating high loan-to-value financing, private mortgage insurance has also played an important role in expanding the secondary market for mortgages. With the assurance of protection in the event of borrower default, investors have become more willing to purchase mortgages and mortgage-backed securities.

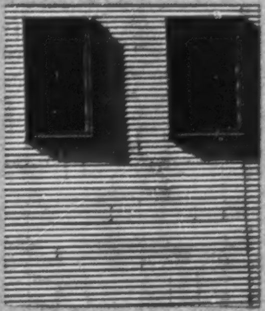
Despite recent claims to the contrary, the approach of mortgage insurers to the new financing instruments has been a very positive one. Instead of "orchestrating anti-ARM campaigns," they have encouraged the growth of a full range of alternative instruments.

While encouraging the development of creative financing, private mortgage insurers have also lobbied for a conscientious approach to such development. This approach entails a willingness to evaluate new instruments on the basis of long-range consequences instead of solely on short-term performance. It involves being dedicated, as participants in the mortgage lending industry, to self-regulation as opposed to government regulation. GEMICO believes that this approach is ultimately in the best interest of all industry participants.

Insurers, like lenders, must react to the changes in the mortgage lending industry in appropriate and responsible ways. The market will support neither unreasonable prices nor uncompensated risk, so this does not purport to be the last word on pricing or risk. GEMICO, however, is confident that changes made to date are warranted by the studies conducted thus far. GEMICO will continue to analyze the risk and compensation levels to ensure that they are compatible with the continued health of the mortgage lending industry.

It is not in anyone's interest—lender or insurer—to stifle the mortgage lending market. Private mortgage insurers are well aware of the critical role they play. The changes the industry has made to date were not designed to make the ARM and the 5 percent down-payment loan become dinosaurs.

These loans have basically proven track records. But they must be improved through insurance pricing and guideline adjustments in order to *preserve* their availability and viability. There are going to be borrowers who will be prevented from purchasing their houses *now* due to the private mortgage insurance industry's changes. But they probably will only be temporarily stayed from their purchase until such a time when they will be in a position to *buy and stay* in their homes. Enabling first-time and other homebuyers to purchase their homes is only half of the goal we should embrace. In order to meet the other half—to keep them there—will depend on the total cooperation of all of the players in the housing market. ☐



HUD: GOING BY THE NUMBERS

The mortgages insured under these two programs have been partitioned, enabling us to make comparisons over the same time period of market rate and below market rate mortgages.

By Rick Calvert

TO HELP FINANCE CONSTRUCTION or substantial rehabilitation of multifamily (five or more units) rental or cooperative housing for low- and moderate-income or displaced families, HUD insures mortgages under two related programs—Sections 221(d)(3) and 221(d)(4) of the National Housing Act. Projects in both programs consist of detached, semi-detached, row, walk-up, or elevator structures. The maximum insured mortgage amounts are controlled by statutory dollar limits per unit that are intended to assure moderate construction costs.

Currently, the principal difference between the programs is that HUD may insure up to 100 percent of HUD-estimated project costs under Section 221(d)(3) for nonprofit and cooperative mortgagors but only up to 90 percent for a mortgagor under Section 221(d)(4). Most profit-motivated mortgagors are insured under (d)(4). Other mortgagor types are insured under (d)(3).

The data used in this article were obtained from Housing's Multifamily Insured and Direct Loan Information System (MIDLIS). The experience from the inception of the programs (the first (d)(3) case was insured in 1958 and the first (d)(4) case in 1962) through April 30, 1984 were examined.

Types of subsidy

Under *Section 8 Lower-Income Rental Assistance,* HUD pays the difference between the amount a lower-income household can afford and the HUD-approved rent for the particular housing unit. Eligible tenants must pay the highest of (1) 30 percent of adjusted income, (2) 10 percent of gross income, or (3) the portion of welfare assistance designated to meet housing costs. Rents for these units (including utilities) must fall within the range of fair market rents as determined by HUD. Legislation establishing this program was enacted in 1974. Section 8 assistance can be provided at or after endorsement. Cases endorsed prior to 1974 may have had Section 8 assistance added after 1974.

HUD may make *rent supplement* payments on behalf of eligible tenants to certain owners of FHA-insured multifamily housing. The payment makes up the difference between 30 percent of the tenant's adjusted income and the fair market rent determined by HUD.

LARRY DALE GORDON / THE IMAGE BANK

TABLE 1

Section 221(d)(3) BMIR Mortgages

Endorsement Year	Number Endorsed	Terminations		Still in Force	Termination Rates	
		Claim	Non-claim		Claim	Non-claim
1961	1	0	0	1	.0%	.0%
1962	28	8	2	18	28.6	7.1
1963	57	20	1	36	35.1	1.8
1964	95	29	3	63	30.5	3.2
1965	92	33	5	54	35.9	5.4
1966	119	36	4	79	30.3	3.4
1967	178	60	5	113	33.7	2.8
1968	380	115	43	222	30.3	11.3
1969	330	95	48	187	28.8	14.5
1970	178	58	5	115	32.6	2.8
1971	79	36	2	41	45.6	2.5
1972	24	6	0	18	25.0	.0
Total 1961–1972	1561	496	118	947	31.8	7.6

TABLE 2

Section 221(d)(3) Below Market Rate Mortgages Endorsed 1961–1972

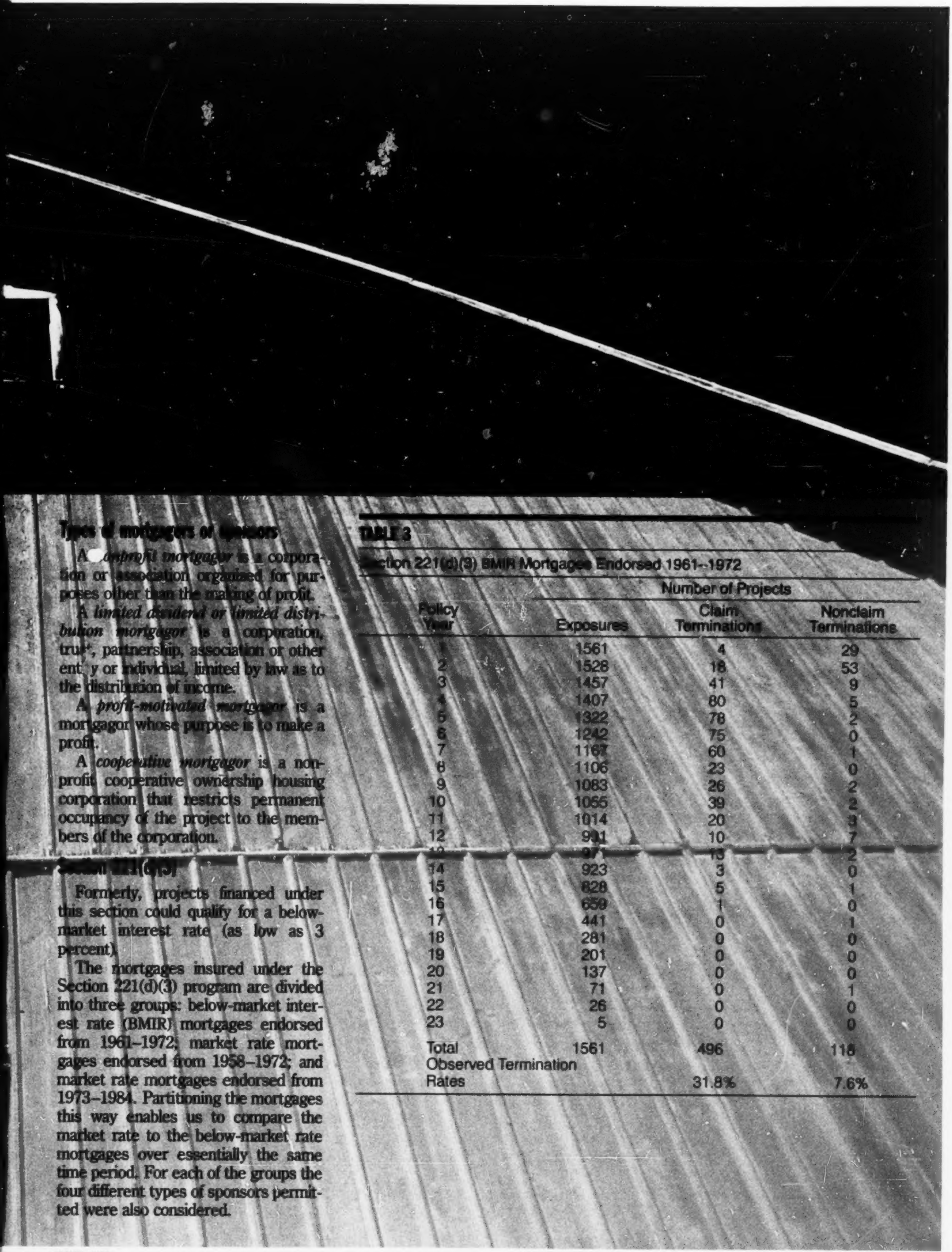
	Number of Endorsements (1)	Number of Claims (2)	Claims Percentage (2)/(1)
Type of Subsidy			
Section 8	395	144	36.5%
Rent Supplement	46	22	47.8
Flexible Subsidy	114	18	15.8
Type of Mortgagor			
Nonprofit	399	197	49.4
Limited Dividend	762	215	28.2
Profit-Motivated	16	12	75.0
Management Coop	367	69	18.8

Legislation establishing this program was enacted in 1965. New rent supplement contracts have not been available since the early 1970s. Current activity consists of amending contracts for existing rent supplement projects.

Flexible subsidy assists in restoring or maintaining the financial and physical soundness of privately owned, federally assisted multifamily housing projects; improving their management; and maintaining them for low- and moderate-income tenants. Legislation establishing this program was enacted in 1978 with the intent of further subsidizing troubled projects already assisted by existing rent supplement contracts.

The three types of subsidies are not mutually exclusive. HUD may have provided a project, endorsed before the early 1970s, rent supplement assistance on behalf of certain low income tenants. Section 8 assistance may have been added to that project after 1974 either as a substitute for rent supplement or as a subsidy for tenants who are not assisted by rent supplement. Flexible subsidy may have increased the existing rent supplement assistance after 1978. Any one project could have had a combination of these subsidies.

Rick Calvert is an actuary in the Department of Housing and Urban Development's Actuarial Branch in the Office of Financial Management. He joined HUD 15 years ago, and before joining the Actuarial Branch, worked in HUD's Office of Finance and Accounting.



Types of mortgagors or sponsors

A nonprofit mortgagor is a corporation or association organized for purposes other than the making of profit.

A *limited dividend or limited distribution mortgagor* is a corporation, trust, partnership, association or other entity or individual, limited by law as to the distribution of income.

A *profit-motivated mortgagor* is a mortgagor whose purpose is to make a profit.

A *cooperative mortgagor* is a nonprofit cooperative ownership housing corporation that restricts permanent occupancy of the project to the members of the corporation.

Section 221(d)(3)

Formerly, projects financed under this section could qualify for a below-market interest rate (as low as 3 percent).

The mortgages insured under the Section 221(d)(3) program are divided into three groups: below-market interest rate (BMIR) mortgages endorsed from 1961–1972; market rate mortgages endorsed from 1958–1972; and market rate mortgages endorsed from 1973–1984. Partitioning the mortgages this way enables us to compare the market rate to the below-market rate mortgages over essentially the same time period. For each of the groups the four different types of sponsors permitted were also considered.

TABLE 3

Section 221(d)(3) BMIR Mortgages Endorsed 1961–1972

Policy Year	Exposures	Claim Terminations	Nonclaim Terminations
		Number of Projects	
1	1561	4	29
2	1528	18	53
3	1457	41	9
4	1407	80	5
5	1322	78	2
6	1242	75	0
7	1167	60	1
8	1106	23	0
9	1083	26	2
10	1055	39	2
11	1014	20	3
12	991	10	7
13	971	13	2
14	923	3	0
15	828	5	1
16	659	1	0
17	441	0	1
18	281	0	0
19	201	0	0
20	137	0	0
21	71	0	1
22	26	0	0
23	5	0	0
Total	1561	496	118
Observed Termination Rates		31.8%	7.6%

TABLE 4

Section 221(d)(3) Market Rate Mortgages

		Terminations			Termination Rates	
Endorsement Year	Number Endorsed	Claim	Non-claim	Still In Force	Claim	Non-claim
1958	11	9	1	1	81.8%	9.1%
1959	6	5	1	0	83.3	16.7
1960	13	9	2	2	69.2	15.4
1961	7	3	4	0	42.9	57.1
1962	9	7	1	1	77.8	11.1
1963	3	3	0	0	100.0	.0
1964	1	0	0	1	.0	.0
1965	2	0	0	2	.0	.0
1966	9	1	0	8	11.1	.0
1967	39	11	1	27	28.2	2.6
1968	171	40	4	127	23.4	2.3
1969	191	44	2	145	23.0	1.0
1970	313	79	5	229	25.2	1.6
1971	262	69	8	185	26.3	3.1
1972	222	37	2	183	16.7	.9
1973	152	22	2	128	14.5	1.3
1974	61	11	0	50	18.0	.0
1975	33	2	0	31	6.1	.0
1976	63	1	0	62	1.6	.0
1977	97	0	0	97	.0	.0
1978	85	0	1	84	.0	1.2
1979	69	0	0	69	.0	.0
1980	56	0	0	56	.0	.0
1981	27	0	0	27	.0	.0
1982	76	0	0	76	.0	.0
1983	12	0	0	12	.0	.0
1984	1	0	0	1	.0	.0
Totals						
1958–1972	1259	317	31	911	25.2	2.5
1958–1975	1505	352	33	1120	23.4	2.2
1958–1984	1991	353	34	1604	17.7	1.7
1973–1984	732	36	3	693	4.9	.4
1976–1984	486	1	1	484	.2	.2

Below-market rate mortgages

As seen in Table 1, the first Section 221(d)(3) below-market interest rate mortgage was endorsed in 1961. There have been only nine BMIR mortgages endorsed since 1973, so these were not considered. So far, BMIR mortgages endorsed between 1961 and 1972 have had an overall observed claim rate of 31.8 percent. In Table 2, these cases are grouped by type of subsidy and mortgagor. A case is included under each of the three types of subsidies if the subsidy was provided for that particular case at any time during the insurance of the mortgage. Therefore, one case can be included in more than one grouping. Each case is included only once under type of mortgagor. A few cases did not have a type of mortgagor identified in the data record and are, therefore, not included in this table. Section 8 assistance did not begin until 1974. By that time, many of these mortgages were either in financial trouble or had experienced a claim termination. Section 8 may have been added to these mortgages to try to keep them from becoming claims. For those cases that had Section 8 added, 36.5 percent nevertheless became claims.

Limited dividend sponsored mortgages were the most numerous of the BMIRs. Their claim rate of 28.2 percent is close to the overall observed claim rate of 31.8 percent. Nearly one-half of all the nonprofit sponsored mortgages have become claims, a much higher rate than the overall observed claim rate.

New rent supplement contracts have not been available since the early 1970s. Current activity consists of amending contracts for existing rent supplement projects.

MIKE MITCHELL / FOLIO

Table 3 shows termination experience for BMIR cases by policy year. (For an explanation of this table, see "How HUD Constructs a Survivorship Schedule," in *Mortgage Banking*, May 1981.)

Market rate mortgages endorsed 1958–1972

As shown in Table 4, the first Section 221(d)(3) market rate mortgage was endorsed in 1958. A much higher percentage of such mortgages endorsed between 1958 and 1972 had Section 8 and rent supplement assistance (see Table 5). Unlike the BMIRs, these cases that had Section 8 added had a relatively low claim rate (15 percent). Overall these cases had a lower claim rate than BMIRs (25.2 percent as opposed to 31.8 percent for BMIRs).

As is the case with BMIR mortgages, the highest proportion of market rate mortgages is sponsored by limited dividend mortgagors. Their claim rate of 15.8 percent is substantially lower than the overall claim rate of 25.2 percent. Nonprofit sponsored mortgages had a claim rate higher than the overall claim rate.

TABLE 5

Section 221(d)(3) Market Rate Mortgages Endorsed 1958–1972

	Number of Endorsements (1)	Number of Claims (2)	Claims Percentage (2)/(1)
Type of Subsidy			
Section 8	602	90	15.0%
Rent Supplement	536	131	24.4
Flexible Subsidy	119	27	22.7
Type of Mortgagor			
Nonprofit	528	183	34.7
Limited Dividend	671	106	15.8
Profit-Motivated	30	13	43.3
Management Coop	27	12	44.4

TABLE 6

Section 221(d)(3) Market Rate Mortgages Endorsed 1973–1984

	Number of Endorsements (1)	Number of Claims (2)	Claims Percentage (2)/(1)
Type of Subsidy			
Section 8	576	12	2.1%
Rent Supplement	93	10	10.8
Flexible Subsidy	19	3	15.8
Type of Mortgagor			
Nonprofit	207	7	3.4
Limited Dividend	394	20	5.1
Profit-Motivated	106	9	8.5
Management Coop	7	0	0.0

TABLE 7

Section 221(d)(3) Market Rate Mortgages

	Mortgages Endorsed 1958–1972			Mortgages Endorsed 1973–1984		
	Number of Projects			Number of Projects		
Policy Year	Exposures	Claim Terminations	Nonclaim Terminations	Exposures	Claim Terminations	Nonclaim Terminations
1	1259	2	7	732	4	1
2	1250	20	2	719	7	0
3	1228	56	2	635	11	0
4	1170	55	0	606	0	0
5	1155	40	1	556	0	1
6	1074	34	1	482	3	0
7	1039	15	2	392	4	0
8	1022	14	1	301	3	0
9	1007	15	3	225	1	0
10	989	14	3	194	2	1
11	972	19	5	147	1	0
12	948	12	2	52	0	0
13	793	6	0	0	0	0
14	599	3	1	0	0	0
15	380	2	0	0	0	0
16	228	3	0	0	0	0
17	92	0	0	0	0	0
18	25	0	0	0	0	0
19	20	0	0	0	0	0
20	13	0	0	0	0	0
21	12	3	0	0	0	0
22	9	3	0	0	0	0
23	5	1	1	0	0	0
24	3	0	0	0	0	0
25	1	0	0	0	0	0
26	1	0	0	0	0	0
Total	1259	317	31	732	36	3
Observed Termination Rates		25.2%	2.5%		4.9%	0.4%

TABLE 8

Section 221(d)(4)

		Terminations			Termination Rates	
Endorsement Period	Number Endorsed	Claim	Non-claim	In Force	Claim	Non-claim
Unsubsidized Mortgages						
1962–1968	136	35	41	60	25.7%	30.2%
1969–1973	1268	366	165	737	28.9%	13.0%
1974–1978	859	46	47	766	5.4%	5.5%
1979–1984	528	4	6	518	0.8%	1.1%
Total	2791	451	259	2081	16.2%	9.3%
Subsidized Mortgages						
1962–1968	1	0	0	1	0.0%	0.0%
1969–1973	73	42	2	29	57.5%	2.7%
1974–1978	917	17	4	896	1.9%	0.4%
1979–1984	2744	10	7	2727	0.4%	0.3%
Total	3735	69	13	3653	1.9%	0.4%
All Mortgages						
1962–1968	137	35	41	61	25.6%	29.9%
1969–1973	1341	408	167	766	30.4%	12.5%
1974–1978	1776	63	51	1662	3.6%	2.9%
1979–1984	3272	14	13	3245	0.4%	0.4%
Total	6526	520	272	5734	8.0%	4.2%

TABLE 9

Section 221(d)(4) Mortgages Endorsed 1962–1984

Policy Year	Unsubsidized Mortgages: Number of Projects: Exposures	Unsubsidized Mortgages: Number of Projects: Claim Terminations	Unsubsidized Mortgages: Number of Projects: Nonclaim Terminations	Subsidized Mortgages: Number of Projects: Exposures	Subsidized Mortgages: Number of Projects: Claim Terminations	Subsidized Mortgages: Number of Projects: Nonclaim Terminations
1	2791	4	9	3735	2	2
2	2677	49	21	3622	10	7
3	2520	123	15	2804	20	1
4	2303	122	13	2481	19	0
5	2045	63	18	1545	8	1
6	1871	37	16	1031	1	0
7	1677	21	20	576	4	0
8	1414	13	30	272	0	0
9	1118	6	25	61	0	1
10	991	5	23	43	1	0
11	895	2	21	36	1	0
12	758	3	18	26	3	0
13	513	2	11	19	0	1
14	229	0	7	6	0	0
15	114	1	4	3	0	0
16	79	0	4	2	0	0
17	49	0	2	0	0	0
18	35	0	1	0	0	0
19	27	0	1	0	0	0
Total	2791	451	259	3735	69	13

TABLE 10

Section 221(d)(4) Mortgages Endorsed 1962–1973

Policy Year	Unsubsidized Mortgages: Number of Projects: Exposures	Unsubsidized Mortgages: Number of Projects: Claim Terminations	Unsubsidized Mortgages: Number of Projects: Nonclaim Terminations	Subsidized Mortgages: Number of Projects: Exposures	Subsidized Mortgages: Number of Projects: Claim Terminations	Subsidized Mortgages: Number of Projects: Nonclaim Terminations
1	1404	1	6	74	0	0
2	1397	40	13	74	2	0
3	1344	117	7	72	10	0
4	1220	109	3	62	13	0
5	1108	55	13	49	7	0
6	1040	30	7	42	1	0
7	1003	18	15	41	4	0
8	970	12	27	37	0	0
9	931	6	25	37	0	1
10	900	5	21	36	1	0
11	875	2	21	35	1	0
12	758	3	18	26	3	0
13	513	2	11	19	0	1
14	229	0	7	6	0	0
15	114	1	4	3	0	0
16	79	0	4	2	0	0
17	49	0	2	0	0	0
18	35	0	1	0	0	0
19	27	0	1	0	0	0
Total	1404	401	206	74	42	2

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Market rate mortgages endorsed 1973–1984

The overall claim rate for these mortgages is low (4.9 percent) and the claim rate for those cases provided in Section 8 was even lower (2.1 percent). Over three-quarters of these mortgages had Section 8 assistance, most of which was provided at the endorsement of the mortgage. Again, the limited dividend sponsored mortgages are the most numerous (see Table 6.) In this group, however, the observed claim rate for the nonprofit sponsored mortgages is a little lower than that for the limited dividend sponsored mortgages. Almost all of the nonprofit sponsored mortgages had Section 8 subsidy provided to every unit in their projects. Table 7 shows termination experience by policy year for market rate (d)(3) mortgages endorsed 1958–1972 and 1973–1984.

Section 221(d)(4)

Because (d)(4) mortgages can only be subsidized by Section 8, and all mortgagors are profit motivated, these data are partitioned into subsidized and unsubsidized mortgages. Table 8 shows claim rates for unsubsidized, subsidized and all (d)(4) mortgages by four endorsement periods. Activity was low during the initial phase of the program but increased substantially in 1969.

Mortgages insured 1962–1984

Table 9 shows termination experience by policy year for unsubsidized and subsidized 221(d)(4) mortgages endorsed from January 1962 through April 1984. So far unsubsidized mortgages have an observed claim rate of 16.2 percent and subsidized mortgages have an observed claim rate of 1.8 percent.

Mortgages insured 1962–1973

Similar to (d)(3) mortgages, (d)(4) mortgages endorsed during 1962–1973 had much higher claim rates than mortgages endorsed during 1974–1984. Table 10 shows termination experience by policy year for (d)(4) mortgages endorsed 1962–1973. Only 74 of the 1,478 mortgages insured in this period received Section 8 subsidy. Of these 74 projects, 42 projects, or 57 percent, have already experienced a claim termination. Of these 42 projects, 32 experienced a claim between 1974–1976. This is the period when Section 8 assistance was just beginning. Like the 221(d)(3) mortgages, most of the assistance was added after the property had already experienced financial difficulty. For cases endorsed after 1973, Section 8 assistance was probably provided at endorsement and the claim rate is extremely low (less than 1 percent).

The success of individual projects is no doubt influenced by Federal economic policies, Federal tax policies, HUD underwriting practices, local economic conditions, HUD assistance programs, and the motivation of the mortgagor sponsoring the project. Probably the most important observation made in this analysis is that Section 221 project mortgages endorsed before 1973 experienced much higher claim rates than those written after 1973.

Section 8 assistance that began in 1974 was successful in keeping claim rates low when provided at the endorsement of the mortgage. The effect of Section 8 on cases that are in financial difficulty when it is applied are inconclusive; for (d)(3) BMIR and (d)(4) the claim rates were high, and for (d)(3) market rate mortgages the claim rate was low.

The BMIR cases had a higher claim rate than market rate cases.

Limited Dividend mortgagors had lower claim rates than non-profit mortgagors unless the non-profit mortgagors had Section 8 assistance from the endorsement of the mortgages. Cooperative mortgagors fared better with BMIRs than with market rate mortgages endorsed before 1973.

At this point, because of the volatility of past claim experience, as well as the uncertainty of future interest rates and other economic factors, HUD is reluctant to make any predictions about the future. However, there is no apparent reason to expect a return to the extremely high claim rates experienced on mortgages endorsed prior to 1973. ☐

The dramatic, and largely unexpected slowdown in the rate of growth in Gross National Product (GNP) during the first quarter of this year has, once again, raised the specter of an impending halt to the present economic expansion. While a business cycle plateau may indeed be the offing, and a "growth recession" a possibility sometime late this year or next, the pattern of widespread production constraints symptomatic of an actual economic downturn is not yet evident.

The most recently released data show that real GNP, or GNP adjusted for changes in prices, grew at only a 1.3 percent seasonally adjusted annual rate in the first quarter of 1985. This is the slowest reported growth rate for real GNP since the 0.5 percent annual rate that occurred in the recession trough period of the fourth quarter 1982. Just as important, however, was the change in the inflation measure used to "deflate" the actual, or "current-dollar" production, into "constant-dollar" or real GNP estimate. This indicator of price changes, the GNP implicit price deflator, registered a 5.3 percent annual rate in the first quarter, almost double the fourth quarter 1984 rate, and the highest level registered since the recovery began in December 1983. As a result, the 6.7 percent rise in current-dollar GNP in the first quarter translated into a 1.3 percent real rate of growth, whereas the marginally higher 7.1 percent real growth in the fourth quarter converted to a 4.2 percent real growth rate. Thus, a slight moderation in overall economic activity during the first quarter relative to the previous period was magnified by a temporary upward movement in the GNP deflator, affected by the unusually harsh weather experienced during February and March across much of the nation. In all likelihood, the estimates of real GNP growth for the second quarter will reflect a substantial rebound from the depressed first quarter estimates, with a significant contribution coming from the housing sector of the economy.

The reported moderation in overall economic activity in the first quarter allowed interest rates to reverse the upward trend that started in late January 1985. By early March, yields on three-month Treasury securities had climbed by over 100 basis points from their January levels, with the yield curve flattening as long-term security yields moved up by only 70 basis points. By the end of April, however, most of the lost ground on short rates had been recovered and longer rates followed partially. This has placed both rate levels, and spreads, in a position very similar to the experience of late January. However, a significant difference is the expected posture of the Federal Reserve Board (Fed). The Fed's concern over the liquidity position of state-insured thrifts, as exemplified by the Ohio savings and loan crisis and more recently by the runs of S&Ls in Maryland, has forced the Fed into a more accommodative monetary policy posture than would otherwise be the case. Further, the sharp slowdown in money supply growth in April and the anemic first quarter real GNP performance currently allows the Fed more latitude in erring on the side of high money growth.

These developments have fostered a relatively favorable housing outlook. Housing starts in March approached the seasonally adjusted annual rate of 1.9 million units and in April they exceeded that mark. Existing house sales, spurred on by affordable fixed-rate mortgages' interest rates, topped the 3 million-a-year rate with new house sales at an annual rate of almost 700,000. Fixed-rate mortgage rates, following the yield-pattern of most long-term securities, have dropped recently to below the "magic" 13 percent level, maintaining the popularity of the fixed-rate mortgages vis-a-vis adjustable rate mortgages. As long as fixed-rate mortgage production in the primary market is sustained, which should be the case throughout the spring and into the high-volume summer months, the issuance of GNMA-MBS should average $2.5 to $3.0 million per month. By mid-summer, housing starts should be averaging an annual rate of 1.75 to 1.80 million, with new home sales approaching the 640,000 annual rate and existing home sales just under a 3 million annual rate.

***Gregory Luetscher**, Assistant Economist*
May 16, 1985

The modern mortgage finance system has undergone two revolutions. The first came in the 1930s when the Federal Housing Administration (FHA) was created, which resulted in the market acceptance of the long-term, amortizing mortgage. The second revolution began by the early 1970s with the creation of mortgage-backed securities that were guaranteed by Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). The Federal National Mortgage Association (Fannie Mae) played a major role as well by tapping the capital markets to finance a mortgage portfolio. A third revolution is currently underway in the mortgage finance markets, and it involves the application of the latest computer-based telecommunications technology to mortgage origination, pooling, delivery, servicing, and trading. These technological advances long have been applied in the equity finance markets, and their use in mortgage finance will achieve the full integration of American real estate finance into the international credit markets.

Among the technological advances already in operation in mortgage finance are Midanet, Laser, GNMA II, Echo I, Shelternet, Loan Express, Rennie Mae, and the book entry issuance of the mortgage-related securities of Freddie Mac and Fannie Mae. Developments in process or under discussion include a GNMA depository, improvements to Laser and Midanet, and a national mortgage exchange.

Midanet is a telecommunications network established by Freddie Mac that permits lenders to deliver loans and submit monthly reports electronically. This year 30 percent of Freddie Mac's loan deliveries have been transmitted through Midanet. Laser is a comprehensive on-line loan delivery and reporting system linking all Fannie Mae offices. The system eventually will provide Lasernet, a network for information and product access to the largest single investor in residential finance. Echo I is the electronic communications service sponsored by the Mortgage Bankers Association. It currently links 1,000 member offices with a bulletin board and receipted message service, and it can provide a link between otherwise incompatible loan processing and servicing systems. Within a few years, Laser, Midanet, and Echo I could be playing a major role in most residential real estate financings.

Another recent application of the newest telecommunications technology has been in the loan origination business. Shelternet, a service of the First Boston Corporation, was the first nationwide mortgage network linking lenders and investors. Loan Express, established by Planning Research Corporation, also was an early entrant into the computer-based mortgage information and processing market. The National Association of Realtors has developed Realtors National Mortgage Access to provide an electronic bulletin board for mortgage finance. Compufund is a regional computer loan origination service operating primarily in California. The application of the same technology to the trading of mortgages and mortgage-related securities will be the next step in the evolution of real estate finance.

During 1984, mortgage trades exceeded $1.5 trillion, more than twice the level of trading on all stock exchanges. In spite of this huge volume, the bulk of mortgage trading still is done through the physical endorsement and delivery of paper GNMA I certificates. This process culminates each month in a frantic two-day settlement period during which dealers scramble to assemble pools that satisfy delivery criteria and produce the highest profits based on price. One result is a significant number of fails or incorrect transactions each month that give rise to a cumbersome and expensive reconciliation effort. The solution to this archaic system is some form of book entry settlement of mortgage trades, and progress already has been made by Fannie Mae and Freddie Mac in this area.

Freddie Mac initiated book entry issuance of mortgage-backed securities (MBS) through the New York Federal Reserve Bank in January 1985. Just last month, Fannie Mae announced a similar arrangement, so both participation certificates (PCs) and MBS are now issued and traded in book entry form. The Mortgage-Backed Securities Clearing Corporation, a subsidiary of the Midwest Stock Exchange, has established a depository for mortgage securities with Chemical Bank serving as the facility manager. That depository is now operating in a test mode with GNMA II MBS. Although there are numerous problems to be worked out concerning payable date, float, and the impact on servicers, the potential efficiencies offered by this quasi-book entry system are considerable.

Technological advances already in place in the equity markets rapidly are being introduced to mortgage finance. As the mortgage markets become integrated into the international credit network, the result is certain to be more efficient markets, and enhanced opportunities for homeownership.

***Warren Matthews**, Senior Director, Secondary Market Activities*
May 15, 1985

MORTGAGE MARKET TRENDS JUNE 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1–4 Units	5+ Units	Total	1–4 Units	5+ Units	Total	1–4 Units	5+ Units	Total	1–4 Units	5+ Units
1984												
JAN	114	70	44	1,871	1,212	659	109	75	34	1,933	1,373	560
FEB	129	82	47	1,969	1,311	658	130	89	41	2,208	1,582	626
MAR	150	103	47	1,765	1,165	600	138	99	39	1,700	1,209	491
APR	161	107	54	1,788	1,127	661	173	121	52	1,949	1,323	626
MAY	169	113	56	1,765	1,100	665	181	127	54	1,787	1,236	551
JUN	171	104	67	1,805	1,089	716	184	121	63	1,837	1,185	652
JUL	142	92	50	1,591	1,006	585	162	110	52	1,730	1,112	618
AUG	142	93	49	1,542	985	557	147	102	45	1,590	1,076	514
SEP	131	82	49	1,517	991	526	148	100	48	1,669	1,116	553
OCT	137	88	49	1,477	948	529	152	102	50	1,564	1,088	476
NOV	122	73	49	1,616	973	643	126	89	37	1,600	1,158	442
DEC	105	58	47	1,599	975	624	97	69	28	1,630	1,231	399
1985												
JAN	104	64	40	1,635	1,053	582	105	66	39	1,849	1,165	684
FEB	101	63	38	1,624	1,041	583	95	68	27	1,647	1,231	416
MAR	144	96	48	1,741	1,131	610	144	101	43	1,883	1,277	606
APRp	156	104	52	1,656	1,051	605	174	119	55	1,913	1,268	645
4 months												
1985	505	327	178				518	354	164			
1984	536	348	188				543	380	163			
1983	451	298	153				458	328	131			
1982	257	165	93				262	192	70			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Seasonally Adjusted Annual Rate			
Total	1 Unit	2+ Units	Non-res.
$163,534	$69,047	$27,816	$66,671
171,331	73,496	28,791	69,044
175,184	74,182	28,169	72,833
176,937	74,988	27,692	74,257
185,108	75,810	30,588	78,710
181,326	75,448	29,539	76,339
179,531	73,695	30,873	74,963
181,128	71,962	32,998	76,168
183,717	70,395	32,835	80,487
181,303	69,931	33,514	77,858
184,345	70,231	32,273	81,841
186,260	70,613	31,237	84,410
187,654	71,648	30,628	85,378
188,790	71,870	30,098	86,822
188,750	72,531	29,781	86,438
n.a.	n.a.	n.a.	n.a.

HOUSE SALES

(Units in thousands)

EXISTING HOUSES[1]	NEW HOUSES		
	Sold	Available For Sale	Months Supply at Current Rate
178	52	301	5.4
202	58	304	5.2
263	63	317	5.9
269	61	325	6.0
288	59	331	6.5
294	58	340	6.4
287	52	340	6.6
273	48	346	7.3
216	53	345	6.6
234	55	349	6.3
210	42	353	7.2
174	38	358	7.0
190	47	354	6.9
193	52	351	6.8
263	67	352	6.4
n.a.	n.a.	n.a.	n.a.
3 months			
646	166		
644	141		
555	147		
421	86		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 17,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
DEC	11	9	58	30	174	182	812	434	9	9	63	25	155	208	951	290
1984																
JAN	8	9	63	33	191	277	885	518	7	9	61	32	186	293	925	529
FEB	10	12	70	37	239	282	916	532	9	11	77	33	299	345	1,099	465
MAR	15	15	76	44	195	201	819	550	11	15	77	35	174	234	851	441
APR	18	22	77	43	193	231	882	482	17	21	89	46	202	246	994	507
MAY	23	23	77	46	214	214	867	470	19	27	88	47	171	242	911	463
JUN	20	23	79	49	195	222	891	497	23	32	87	42	219	277	919	422
JUL	18	21	64	39	183	218	767	423	20	23	78	40	184	239	891	416
AUG	19	21	63	39	186	195	745	416	21	24	67	35	190	225	760	415
SEP	19	19	59	34	200	180	739	398	19	24	69	36	193	235	809	432
OCT	19	21	61	35	192	184	701	400	22	26	68	36	213	219	741	391
NOV	18	18	55	31	227	211	737	441	22	20	55	30	244	232	706	418
DEC	15	12	52	26	235	223	722	419	13	11	51	22	245	228	814	343
1985																
JAN	13	8	53	31	271	208	699	457	10	8	56	32	248	270	826	505
FEB	11	7	50	33	266	187	678	493	7	6	50	31	260	185	745	457
MAR	20	17	68	39	265	234	750	492	17	18	74	36	275	294	850	464
APRp	24	22	68	42	253	219	729	455	26	22	80	47	292	247	872	502
4 months																
1985	68	54	239	145					60	54	260	146				
1984	47	55	283	151					44	55	301	143				
1983	40	43	266	105					38	45	277	99				
1982	24	22	158	53					22	26	164	50				

CONSTRUCTION STATUS

(units in thousands)

UNDER CONSTRUCTION			COMPLETIONS		
Total	1–4 Units	5+ Units	Total	1–4 Units	5+ Units
1,003	582	421	138	102	36
995	578	417	112	76	36
1,008	586	422	109	77	32
1,022	600	422	119	82	37
1,064	632	432	127	86	41
1,098	660	438	143	95	48
1,118	672	446	156	104	52
1,132	677	455	146	102	44
1,124	669	455	151	108	43
1,123	662	461	147	105	42
1,111	659	452	159	105	54
1,101	653	448	134	95	39
1,051	620	431	150	104	46
1,031	597	433	119	84	35
1,004	586	419	121	79	42
1,024	604	420	125	82	43
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		3 months			
			365	245	120
			338	233	105
			250	182	68
			207	138	69

INTEREST RATES AND YIELDS

Year and Month	1–4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Point)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional				ARM (5 yr. Treas.)	Conv.		Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper 90–119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing							10-yr.	26-wk.			
1984																
JAN	13.08%	13.28%	13.27%	12.29%	12.16%	13.74%		12.788%	12.800%	12.46%	12.99%	11.67%	9.02%	9.20%	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34%	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92
NOV	12.90	13.20	13.21	12.75	12.89	13.86		12.770	12.710	12.59	12.98	11.57	8.81	9.03	(8)	102
DEC	12.99	13.05	13.05	12.55	12.77	13.98		12.500	12.688	12.39	12.88	11.50	8.28	8.44	11	89
1985																
JAN	13.01	12.88	12.88	12.27	12.61	13.72		12.400	12.650	12.35	12.78	11.38	8.00	8.03	23	97
FEB	13.27	13.06	13.06	12.21	12.39	14.54		12.238	12.675	12.42	12.76	11.51	8.39	8.54	51	91
MAR	13.43	13.26	13.28	11.92	12.19	14.60		12.860	13.070	12.77	13.17	11.86	8.92	8.90	10	91
APR	12.97	13.01	13.01	12.05	12.12	n.a.		12.525	12.669	12.44	12.75	11.43	8.31	8.37	22	101

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1–4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
JUN	$29,937	$7,120	$10,936	$10,355	$1,526	$20,993	$5,950	$ 8,683	$6,268	$ 92	$2,622	$910	$ 916	$646	$150	$ 6,322	$ 260	$1,337	$3,441	$1,284
JUL	25,067	5,810	10,275	7,987	995	19,147	5,450	8,297	5,336	64	1,177	30	759	317	71	4,743	330	1,219	2,334	860
AUG	30,175	5,730	11,291	11,275	1,879	21,514	5,000	9,197	7,260	57	1,699	220	740	497	242	6,962	510	1,354	3,518	1,580
SEP	25,035	4,470	10,331	8,819	1,415	17,216	3,660	8,127	5,380	49	1,548	220	774	418	136	6,271	590	1,430	3,021	1,230
OCT	21,917	4,300	8,586	7,803	1,228	15,277	3,630	6,823	4,777	47	1,486	170	759	395	162	5,154	500	1,004	2,631	1,019
NOV	21,342	5,340	8,202	6,443	1,357	14,868	4,690	6,317	3,811	50	1,661	100	783	559	219	4,813	550	1,102	2,073	1,088
DEC	26,120	4,970	10,553	7,459	3,138	16,105	4,860	7,441	3,702	102	2,230	110	996	825	299	8,355	570	2,116	2,932	2,737
1984																				
JAN	21,138	4,870	7,818	7,695	755	14,144	4,190	5,839	4,067	48	1,903	320	938	598	47	5,091	360	1,041	3,030	660
FEB	20,182	4,310	7,721	7,184	967	12,916	3,350	5,724	3,800	42	1,850	570	739	393	148	5,416	390	1,258	2,991	777
MAR	24,030	4,690	10,158	8,087	1,095	15,643	3,770	7,414	4,374	85	2,132	370	1,052	617	93	6,255	550	1,692	3,096	917
APR	22,959	5,870	11,261	7,317	1,511	18,027	4,940	8,507	4,508	72	1,986	410	1,100	290	186	5,946	520	1,654	2,519	1,253
MAY	28,632	5,230	13,393	8,768	1,241	20,282	4,480	10,454	5,244	104	1,971	140	1,255	481	95	6,379	610	1,684	3,043	1,042
JUN	30,866	5,490	14,485	8,896	1,995	21,438	4,680	11,054	5,652	52	1,987	20	1,343	482	142	7,441	790	2,088	2,762	1,801
JUL	25,206	3,760	12,979	7,297	1,170	18,019	3,330	10,213	4,404	72	1,592	0	963	553	76	5,595	430	1,803	2,340	1,022
AUG	25,563	3,570	12,532	7,735	1,726	17,035	3,070	9,546	4,355	64	1,567	0	1,221	322	24	6,961	500	1,765	3,058	1,638
SEP	20,283	3,050	9,654	6,701	878	13,213	2,400	6,889	3,867	57	1,483	70	1,083	306	24	5,587	580	1,682	2,528	797
OCT	22,290	3,700	9,643	8,021	926	14,998	3,110	7,188	4,594	106	1,260	0	880	292	88	6,032	590	1,575	3,135	732
NOV	20,839	3,370	9,219	7,095	1,155	13,390	3,090	6,445	3,811	44	1,596	0	1,098	387	111	5,853	280	1,676	2,897	1,000
DEC	28,888	6,160	10,619	8,540	3,569	16,192	4,720	6,914	4,478	80	2,434	110	1,488	404	432	10,262	1,330	2,217	3,658	3,057

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
AUG	$ 79,490	$14,990	$38,590	$13,770	$12,140	$24,126	$6,160	$12,668	$3,653	$1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,918	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	90,837	8,150	51,666	17,591	13,430	17,127	2,910	9,852	2,870	1,495
OCT	89,826	8,370	50,624	16,996	13,836	19,151p	3,910	10,578	3,169	1,494
NOV	92,434	8,190	51,651	19,389	15,204	20,760	3,430	11,549	3,247	2,534
DEC	91,093p	8,700p	50,483	17,905	14,005	22,130p	5,480p	10,872	3,713	2,065
1985										
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
AUG	205	106	99	139	$8,665	31	$1,641	35	$2,193	73	$4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391
NOV	118	36	82	85	5,363	9	440	11	668	65	4,255
DEC	115	37	78	83	5,363	10	583	13	847	60	3,933
1985											
JAN	109	39	70	93	5,973	20	1,125	11	723	62	4,125
FEB	106	40	66	73	4,787	10	579	13	867	50	3,341
MAR	133	46	87	91	5,824	27	1,504	13	826	51	3,494

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
AUG	$1,282	$1,213	$23,078	$1,052	$5,592	$6,367	$1,621	$1,585	$7,976	$5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,453	2,663	2,864	2,668	2,360	2,473
NOV	2,150	1,297	34,821	1,240	3,865	4,158	2,241	1,996	2,922	1,432
DEC	2,758	1,962	36,215	1,292	3,909	4,124	4,137	3,818	3,293	2,071
1985										
JAN	1,300	1,943	36,915	913	4,142	4,264	2,197	1,987	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,431	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,215	3,453	3,232	2,750	3,757	2,772

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1–4 Units	5+ Units	Non-res.		Total	1–4 Units	5+ Units	Non-res.
1983									
AUG	$110	$ 70	$10	$ 30	$ 80	$200	$120	$ 20	$ 60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	90	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100	50	10	40	120	440	100	160	180
OCT	90	40	10	40	130	400	210	100	80
NOV	170	110	20	40	240	210	140	50	20
DEC	230	110	10	110	420	610	360	160	90
1985									
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1–4 Units				5+ Units			Non-res[3]
	Total[2]	1–4 Units	5+ Units	Non-res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	
1983													
JAN	$5,300	$4,640	$ 340	$ 240	$4,710	$ 3,880	$ 1,720	$ 940	$ 1,220	$ 650	$ 30	$ 620	$ 180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,670	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEP	3,380	2,500	120	780	3,050	2,400	550	380	1,470	70	70	0	580
OCT	3,600	2,920	0	750	3,700	3,110	820	470	1,820	0	0	0	590
NOV	3,890	3,610	0	280	3,370	3,090	820	470	1,800	0	0	0	280
DECp	4,880	3,860	70	770	5,250	4,090	1,280	690	2,120	80	0	80	1,080
Year to Date													
1984					$53,170	$44,500	$10,850	$ 7,130	$26,520	$1,980	$120	$1,860	$6,680
1983					65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530
1982					29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230
1981					33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH							OUTSTANDING COMMITMENTS END OF MONTH						
	To Borrowers			From Investors				To Borrowers		From Investors				
	Total	1–4 Units	5+ Units	Non-res.[3]	Total	1–4 Units	5+ Units	Non-res.[3]	1–4 Units	5+ Units	Non-res.[3]	1–4 Units	5+ Units	Non-res.[3]
1983														
JAN	$ 7,010	$ 5,550	$ 880	$ 580	$ 5,140	$ 4,250	$ 80	$ 810	$14,370	$ 1,240	$ 910	$ 8,920	$ 1,380	$1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DECp	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
Year to Date[5]														
1984	$50,100	$41,420	$ 510	$8,170	$55,550	$43,820	$3,160	$ 8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] — COVERAGE[4] — SERVICING VOLUME[1]

Year and Month	OUTSTANDING END OF MONTH INVENTORY[1]									COVERAGE[4]			SERVICING VOLUME[1]		
	Total	1–4 Units				5+ Units			Non-res.[3]	1–4 Units	5+ Units	Non-res.[3]	1–4 Units	5+ Units	Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.							
1983															
JAN	$11,220	$6,450	$2,180	$1,440	$2,830	$3,600	$470	$3,130	$1,170	43%	29%	55%	$245,140	$42,090	$41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	261,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260	58	51	45	302,840	39,300	38,930
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110	60	48	45	339,960	40,660	37,160
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140	51	43	57	350,580	39,790	32,120
DECp	6,840	6,090	1,500	980	3,610	170	0	170	580	56	96	88	321,620	33,110	30,540

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1–4 Units	5+ Units	Non-res.[3]	Land Loans	Total	1–4 Units	5+ Units	Non-res.[3]	Total	1–4 Units	5+ Units	Non-res.[3]	Land Loans
1983														
JAN	$100	$ 50	$20	$ 30	$60	$280	$120	$ 30	$130	$2,810	$ 750	$ 650	$1,410	$ 580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEP	100	50	10	40	120	440	100	160	180	2,150	790	180	1,180	800
OCT	90	40	10	40	130	400	210	100	90	2,180	780	220	1,180	870
NOV	170	110	20	40	240	210	140	50	20	3,520	1,380	410	1,730	2,260
DECp	430	220	30	180	470	470	270	120	80	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] — NOTES PAYABLE[1]

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]								NOTES PAYABLE[1]			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1–4 Units	5+ Units	Non-Res.[3]	Total	1–4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1983												
JAN	$1,730	$100	$1,420	$ 210	$ 7,170	$ 660	$ 3,990	$2,520	$19,270	$3,320	$10,271	$ 5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,040
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEP	760	100	80	580	4,170	760	580	2,830	59,220	4,520	14,240	40,460
OCT	710	150	160	400	3,820	860	590	2,370	57,230	4,830	17,070	35,330
NOV	380	140	70	170	3,230	680	430	2,120	54,180	4,820	19,180	30,180
DECp	790	200	10	580	3,910	930	280	2,700	42,280	8,390	23,680	10,210

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MORTGAGE BANKING

JULY 1985

THE MAGAZINE OF REAL ESTATE FINANCE

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MORTGAGE BANKING

COINSURANCE/PAGE 45

AUTOMATION/PAGE 90

ARTICLES

PAGE 8
WHEN THE GOING GETS TOUGH, THE TOUGH GET GOING
Bill Sinclair
The muddled economic atmosphere is creating the need for thrifts to form bold, creative strategies to diversify services and explore new opportunities and markets. With the correct combination of strategic and tactical moves, S&Ls can again be one of the stars of the financial community.

PAGE 15
YOURS, MINE AND OURS
H. Beth Marcus
Now that cooperative legal and finance tools are in place, more and more lenders, developers and buyers are recognizing the benefits of the 1,100-year old multifamily homeownership form. Cooperative housing's time has come again.

PAGE 35
"YOU HAVE TO KNOW WHEN TO HOLD THEM AND WHEN TO FOLD THEM"
Richard Kaplan, Peter Corey and Val Schurowliew
Mortgage bankers know all too well the interest rate risks they face every business day. The industry has attempted to reduce its rate of exposure by selling products forward or shorting the cash futures markets. To properly manage interest rate risk, originators must thoroughly understand the result of using one hedge over another.

PAGE 45
"AGAINST ALL ODDS"
Robert B. Joselow
The Coinsurance program represents the Reagan Administration's key multifamily housing program initiative for the next four years.

PAGE 57
THAT'S A GOOD QUESTION
Hugh A. Brodkey
The questions that are asked by lenders and their counsel to the title insurers sometimes hit the point and sometimes miss. More importantly, there are questions that are frequently not asked but should be.

PAGE 60
COMPETITIVE COMPARISON
Stephen F. Thode
The model developed in this article provides a means to compare ARMs and other financing options and illustrates the power of the model using actual ARM data.

PAGE 74
SOMETHING OLD, SOMETHING NEW
Susan D. Mara
The changes incorporated in the GNMA II program provide some advantages and disadvantages to investors. The net impact of these changes will affect how investors value GNMA II securities relative to GNMA I securities.

PAGE 82
THE CHALLENGE OF AFFLUENT MARKET LENDING
Richard J. Haselbarth
The affluent real estate market offers a number of major opportunities to the mortgage lender but the challenges are real and savings institutions just entering this unique market should be prepared to face a number of obstacles.

PAGE 90
THE LAST WORD (THE TOTAL APPROACH TO MORTGAGE AUTOMATION)
Fred Dumas
The most time-efficient and profitable approach for the contemporary mortgage originator and servicer is to automate the entire loan process, from the moment an applicant walks in the door through the closing, secondary marketing, servicing and investor reporting.

DEPARTMENTS

PEOPLE	**95**
BOOKS	**104**
AD INDEX	**110**
MORTGAGE MARKET TRENDS	**113**
SECONDARY MORTGAGE MARKETS	**114**

It appears that 1985 may turn out to be a significantly more profitable year for mortgage lenders than MBA economists previously anticipated. The obvious reason for this bullish housing outlook is the substantial decline in interest rates experienced during this spring. After rising 120 basis points this past winter, short-term interest rates have dropped 170 basis points, while long-term rates have fallen 160 basis points to around 10.4 percent. As a consequence, interest rates on 30-year fixed-rate mortgages are now in the 12 to 12.5 percent range and the housing industry stands virtually alone as a source of strength in the economy. Just how long the latter holds true, however, will obviously depend on the future path of interest rates, which in turn, will be determined by the course of monetary policy and economic growth throughout the remainder of the year.

So far this year, the pervasive weakness in the manufacturing sector has held back economic growth and only a substantial turnaround in industrial production will put the economy on a higher growth path. Although business investment expenditures and consumer spending have remained on an upward path this year, domestic manufacturers have not reaped the benefits, as the strong foreign exchange value of the dollar has caused much of that demand to be satisfied through purchases of imported goods. At the same time, foreign purchases of U.S. export goods have been restrained by the relatively slower rates of economic growth abroad and the strong dollar. Thus, the balance of trade has continued to deteriorate and it is this severe deterioration that has so weakened the U.S. manufacturing sector.

The poor performance of U.S. manufacturers this year has had a profound impact on money and capital markets in two important ways. First, flat industrial production has fostered a sharp reduction in business loan demand, as business loans this year have grown at only a 7 percent annual rate—half of last year's pace. Second, the lethargic rate of economic growth fostered by the faltering trade sector has forced the Federal Reserve Board (Fed) to implement a highly accommodative monetary policy to prevent the economy from slipping into a recession. Since last December, the narrow measure of the money supply, M1, has grown at nearly triple the rate recorded in the last half of 1984. In addition, the Fed has lowered the discount rate three times since last November. Thus, it has been a combination of significantly reduced business loan demand and a highly expansionary monetary policy that has allowed interest rates to drop so sharply.

In MBA's view, there is little reason to believe that an upsurge in business loan demand and a move towards a more restrictive monetary policy will take place any time soon. Although the dollar has weakened somewhat on the foreign exchange markets in recent months, it remains far above the trade-weighted value that prevailed in 1981 and whatever depreciation occurs will be gradual. Thus, the U.S. export and import competing industries will probably remain depressed through the rest of the year, in turn exerting a strong drag on total manufacturing sector production. As a result, increased business loan demand emanating from manufacturing companies is highly unlikely this year. Therefore, a usual source of upward pressure on interest rates will probably remain subdued.

At the same time, as long as the manufacturing sector is burdened by the weight of the strong dollar, the Fed will probably place unusually heavy weight on the effect its decisions could have on the value of the dollar. Thus, the Fed will probably go out of its way to ensure that interest rates are low enough to allow a steady depreciation in the foreign exchange value of the dollar throughout the year. Therefore, it is anticipated that the Fed will continue to pursue an accommodative monetary policy, even if the money supply continues to grow above the Fed's targeted money growth range.

In short, given the above background, MBA feels that interest rates are likely to stay near current levels at least through the mid- to late summer. Consequently, housing activity will remain strong for much of the year—probably strong enough to carry the economy as a whole and avoid a recession. Interest rates on 30-year fixed-rate mortgages will probably stay in the 11.75 to 12.5 percent range during the summer and rates on one-year adjustable rate mortgages will hover in the 9.5 to 10 percent band.

In this interest rate structure, housing starts should approach 1.8 million units for the year and residential loan originations by mortgage bankers should well exceed last year's volume of $48 billion. Fixed-rate mortgages will, in all likelihood, continue to dominate in volume throughout the rest of the year, supporting a substantially improved level of mortgage-backed security issues relative to 1984. Whatever the risks to the housing sector that may exist, they are not likely to surface until the third quarter, when today's low interest rates and the Fed's currently expansionary monetary policy begin to stimulate economic activity as a whole.

***Edison R. Zayas,** Economist*
June 17, 1985

SECONDARY MORTGAGE MARKETS

When private secondary mortgage market conduits began appearing in the late 1970s, the conventional wisdom was that they would not be able to compete with FNMA (Federal National Mortgage Association), FHLMC (Federal Home Loan Mortgage Corporation) and GNMA (Government National Mortgage Association) for any substantial share of the mortgage securitization pie. A lot has changed since then. In a few short years the private conduits have multiplied, differentiated and specialized and are clearly here to stay.

There are two primary reasons that the private conduits are able to compete more effectively now. They are: The Secondary Mortgage Market Enhancement Act (SMMEA) and other regulatory changes, passed in 1984 and the increase in volume of mortgages sold into the secondary market since its inception in 1970.

The SMMEA extended many of the advantages that the securities sponsored by FNMA, FHLMC and GNMA, and corporate securities have enjoyed to privately issued mortgage-backed securities, creating a more level playing field. The SMMEA, combined with regulatory changes, relaxed laws in registration requirements, trading restrictions and investment eligibility.

In regards to investment eligibility, privately issued mortgage-backed securities are now eligible to be purchased by a wider range of investors. Investment restrictions have been removed that precluded depository institutions and pension funds from purchasing privately issued mortgage-backed securities. By expanding the ability of private conduits to market their product, the SMMEA made it possible for the private conduits to increase their production of mortgage-backed securities and thus to purchase more mortgages from lenders.

The SMMEA also made it possible for forward trading of mortgage securities to take place by relaxing certain margin requirements that were enacted by the Securities Exchange Act of 1934. The Act created a 180-day window during which a mortgage-backed security can be either sold or purchased for forward delivery.

FNMA, FHLMC and GNMA securities are exempt from SEC registration requirements. The SMMEA extended that treatment to eligible privately issued mortgage-backed securities and preempted state registration laws that apply to mortgage-backed securities.

Of equal importance to the SMMEA in creating an environment within which the private conduits can compete, has been the spectacular growth of the secondary mortgage market. In 1970, 39 percent of single family originations were sold into the secondary market. In 1983, the secondary market encompassed 74 percent of single-family originations according to HUD data.

Not only has the volume of secondary market activity increased, the diversity of product sold in the secondary market has multiplied rapidly. In addition to the plain vanilla 30-year fixed-rate mortgage, there are ARMs (adjustable rate mortgages), GPARMs (graduated payment adjustable rate mortgages), GEMs (growing equity mortgages) and a popular product lately—the 15-year mortgage, among others. In short, the secondary mortgage market has enough diversity of product being sold and overall volume to support a large number of conduits and a varied group of investors.

Certainly, the private conduits, even the largest, are still not in a position to go toe-to-toe with the government sponsored institutions. This is due largely to the government guaranty, either implicit or explicit, which FNMA, FHLMC and GNMA securities carry. But even with that remaining disadvantage the private conduits have proliferated rapidly.

The development of the private conduit industry has created a number of different types of conduit institutions. Recently, there has been an explosion of firms who act as CMO (collateralized mortgage obligation) conduits for thrifts. There is Salomon Capital Access for Savings Institutions, Epic Acceptance Corporation, Trident Financial Corporation, ISFA Corporation and Mortgage Bankers Financial Corporation, to name a few of the larger ones. These conduits specialize solely in turning a portion of a thrift's portfolio of mortgages into a CMO.

Perhaps the most well known and easily accessible conduits are the large firms such as RFC, Sears Mortgage Securities Corporation, GEMSC and Citi Mae. These firms are in the market daily with an array of products they are willing to purchase and a competitive fee structure.

The result of this more competitive atmosphere in the secondary mortgage markets is that a larger share of the capital markets is attracted to housing-linked investments. By offering investors a greater variety of products at competitive prices, the secondary mortgage market is able to compete with other larger users of capital, which creates a stable, less expensive source of funds for American homebuyers.

Deborah Whiteside, *Assistant Director,*
Secondary Market Activities
June 14, 1985

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1984												
DEC	97	69	28	1,630	1,231	399	105	58	47	1,599	975	624
1985												
JAN	105	66	39	1,849	1,165	684	104	64	40	1,635	1,053	582
FEB	95	68	27	1,647	1,231	416	101	63	38	1,624	1,041	583
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	119	56	1,927	1,269	658	160	105	55	1,704	1,066	638
MAY$_p$	169	119	50	1,663	1,153	510	168	108	60	1,755	1,053	702
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
5 MONTHS												
1985	689	473	216				677	436	241			
1984	730	510	220				723	475	248			
1983	633	451	182				598	399	199			
1982	363	260	103				343	220	123			

RESIDENTIAL STRUCTURES, BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1984																
DEC	13	11	51	22	245	228	814	343	15	12	52	26	235	223	722	419
1985																
JAN	10	8	56	32	248	270	826	505	13	8	53	31	271	208	699	457
FEB	7	6	50	31	260	185	745	457	11	7	50	33	266	187	678	493
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	25	22	81	47	288	248	887	504	24	22	71	43	258	223	760	463
MAY$_p$	25	29	73	42	239	262	751	411	27	27	71	44	260	261	780	454
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
5 MONTHS																
1985	83	83	334	189					95	81	313	190				
1984	63	83	391	194					74	81	363	203				
1983	57	70	367	140					54	61	340	143				
1982	33	42	218	69					34	37	200	72				

	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Under Construction			Completions		
YEAR AND MONTH		Sold	Avail- For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non- res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1984														
NOV	210	42	353	7.2	$184,345	$70,231	$32,273	$81,841	1,101	653	448	134	95	39
DEC	174	38	358	7.0	186,260	70,613	31,237	84,410	1,051	620	431	150	104	46
1985														
JAN	190	48	353	6.9	187,654	71,648	30,628	85,378	1,030	597	433	119	84	35
FEB	193	54	350	6.8	188,700	71,981	29,996	86,723	1,001	585	416	121	79	42
MAR	263	67	353	6.4	187,196	72,818	29,194	85,184	1,020	602	418	125	82	43
APR$_P$	**282**	**57**	**360**	**7.1**	**191,425**	**73,197**	**29,602**	**88,626**	**1,067**	**629**	**438**	**127**	**91**	**36**
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
4 MONTHS														
1985	928	226										492	336	156
1984	912	234										467	321	146
1983	793	199										337	246	91
1982	589	120										283	191	92

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type

(Dollars in Millions)

	TOTAL					1-4 UNITS				
YEAR AND MONTH	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
JUL	$ 25,206	$ 3,760	$ 12,979	$ 7,297	$ 1,170	$ 18,019	$ 3,330	$10,213	$ 4,404	$ 72
AUG	25,563	3,570	12,532	7,735	1,726	17,035	3,070	9,546	4,355	64
SEPT	20,283	3,050	9,654	6,701	878	13,213	2,400	6,889	3,867	57
OCT	22,290	3,700	9,643	8,021	926	14,998	3,110	7,188	4,594	106
NOV	20,839	3,370	9,219	7,095	1,155	13,390	3,090	6,445	3,811	44
DEC	**27,978**	**5,250**	**10,619**	**8,540**	**3,569**	**15,562**	**4,090**	**6,914**	**4,478**	**80**
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	292,968	53,160	129,482	93,338	16,988	194,667	44,500	96,187	53,154	826
12 MONTHS										
1984	292,968	53,160	129,482	93,338	16,988	194,667	44,500	96,187	53,154	826
1983	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1982	130,689	29,250	43,433	49,637	8,369	88,937	24,440	34,783	29,190	544
1981	135,108	33,480	47,789	42,965	10,874	93,999	25,830	41,980	25,711	478

	5+ UNITS					NONRESIDENTIAL				
YEAR AND MONTH	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
JUL	$ 1,592	$ 0	$ 963	$ 553	$ 76	$ 5,595	$ 430	$ 1,803	$ 2,340	$ 1,022
AUG	1,567	0	1,221	322	24	6,961	500	1,765	3,058	1,638
SEPT	1,483	70	1,083	306	24	5 587	580	1,682	2,528	797
OCT	1,260	0	880	292	88	6,032	590	1,575	3,135	732
NOV	1,596	0	1,098	387	111	5,853	280	1,676	2,897	1,000
DEC	**2,404**	**80**	**1,488**	**404**	**432**	**10,012**	**1,080**	**2,217**	**3,658**	**3,057**
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	21,733	1,980	13,160	5,127	1,466	76,568	6,680	20,135	35,057	14,696
12 MONTHS										
1984	21,733	1,980	13,160	5,127	1,466	76,568	6,680	20,135	35,057	14,696
1983	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1982	7,410	1,580	3,171	2,221	438	34,322	3,230	5,479	18,226	7,387
1981	6,916	1,740	2,339	2,084	753	34,193	5,910	3,470	15,170	9,643

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in Millions)

YEAR AND MONTH	ISSUED DURING MONTH Total	ISSUED DURING MONTH Mtg. Bankers	ISSUED DURING MONTH S&Ls	ISSUED DURING MONTH Banks^2	ISSUED DURING MONTH Life Cos.	OUTSTANDING Total	OUTSTANDING Mtg. Bankers	OUTSTANDING S&Ls	OUTSTANDING Banks^2	OUTSTANDING Life Cos.
1984										
JUL	$ 22,723	$ 4,060	$ 13,424	$ 4,108	$ 1,131	$98,039	$11,480	$54,102	$19,227	$13,230
AUG	19,641	2,920	12,316	3,530	875	92,436	7,970	52,800	18,655	13,011
SEPT	17,127	2,910	9,852	2,870	1,495	90,837	8,150	51,666	17,591	13,430
OCT	19,151	3,910	10,578	3,169	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,760	3,430	11,549	3,247	2,534	92,434	8,190	51,651	19,389	15,204
DEC	**22,130**	**5,480**	**10,872**	**3,713**	**2,065**	**91,093**	**8,700**	**50,483**	**17,905**	**14,005**
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	262,970	50,100	146,184	45,842	20,844					
12 MONTHS										
1984	262,970	50,100	146,184	45,842	20,844					
1983	260,343	81,070	123,361	38,195	17,717					
1982	120,534	47,800	45,184	19,511	8,039					
1981	105,939	36,700	44,386	18,481	6,372					

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA**	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1984												
NOV	143	48	13	82	85	$ 5,363	9	$ 440	11	$ 668	65	$ 4,255
DEC	142	49	15	78	83	5,363	10	583	13	847	60	3,933
1985												
JAN	138	56	12	70	93	5,973	20	1,125	11	723	62	4,125
FEB	138	59	13	66	73	4,787	10	579	13	867	50	3,341
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	**188**	**67**	**19**	**102**	**110**	**7,103**	**35**	**2,007**	**14**	**944**	**61**	**4,152**
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
4 MONTHS												
1985	632	247	60	325	367	23,687	92	5,215	51	3,360	224	15,112
1984	624	173	67	384	445	28,302	86	4,535	82	5,309	277	18,458
1983	590	305	78	207	292	17,295	94	4,808	64	4,024	134	8,463
1982	225	94	31	100	133	7,683	28	1,324	26	1,515	79	4,844

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

YEAR AND MONTH	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1984										
DEC	$ 2,758	$ 1,962	$36,215	$ 1,292	$ 3,909	$ 4,124	$ 4,137	$ 3,818	$ 3,293	$ 2,071
1985										
JAN	1,300	1,943	36,915	913	3,030	4,264	2,197	1,984	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	**2,074**	**1,703**	**41,613**	**1,004**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**6,673**	**3,595**
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
5 MONTHS										
1985	8,826	8,976	—	6,680	*14,644	*13,540	*10,877	*9,497	21,415	14,279
1984	8,122	7,976	—	4,836	6,025	6,430	5,081	3,907	15,862	12,996
1983	6,531	7,655	—	6,291	6,410	7,445	7,754	7,391	31,506	20,535
1982	7,929	3,314	—	3,539	9,178	9,191	6,481	6,483	8,586	5,226

**—FHA Applications Received now includes the Direct Endorsement Program

*—4 Months Totals

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES							APARTMENTS[4]
	FHA OPINION SURVEY			FHLBB SURVEY		FNMA Mandatory Delivery Yields		
	FHA NEW[3]	CONVENTIONAL New	CONVENTIONAL Existing	CONVENTIONAL New	CONVENTIONAL Existing	ARM (5 yr. Treas.)	Conv.	
1984								
DEC	12.99%	13.05%	13.05%	12.55%	12.77%	12.500%	12.688%	13.98%
1985								
JAN	13.01	12.88	12.88	12.27	12.61	12.400	12.650	13.72
FEB	13.27	13.06	13.06	12.21	12.39	12.238	12.675	14.54
MAR	13.43	13.26	13.28	11.92	12.19	12.860	13.070	14.60
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.669	14.16
MAY	**n.a.**	**n.a.**	**n.a.**	**12.06**	**12.09**	**12.038**	**12.281**	**13.34**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
	GNMA[5]	FNMA[5]	FHLMC[5]	A-Rated[6] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1984							
DEC	12.39%	—	—	12.88%	11.50%	8.28%	8.44%
1985							
JAN	12.35	—	—	12.78	11.38	8.00	8.03
FEB	12.42	—	—	12.76	11.51	8.39	8.54
MAR	12.77	—	—	13.17	11.86	8.90	8.90
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	**11.93**	**—**	**—**	**12.25**	**10.85**	**7.65**	**7.83**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1984				
NOV	(8)	102	—	—
DEC	11	89	—	—
1985				
JAN	23	97	—	—
FEB	51	91	—	—
MAR	10	91	—	—
APR	**22**	**101**	**—**	**—**

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing Construction only.

[5] Securities for 30 day delivery.

[6] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

Sources: American Council Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-[3] res.	SEASONALLY ADJUSTED Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	**5,250**	**4,090**	**1,280**	**690**	**2,120**	**80**	**0**	**80**	**1,080**	**4,880**	**3,880**	**70**	**770**
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH To Borrowers Total	To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors Total	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.	OUTSTANDING COMMITMENTS END OF MONTH To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	**5,480**	**4,090**	**430**	**960**	**4,850**	**3,910**	**80**	**860**	**7,850**	**100**	**750**	**7,810**	**280**	**1,170**
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,320	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY

YEAR AND MONTH	Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,430	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	**6,840**	**6,090**	**1,500**	**980**	**3,610**	**170**	**0**	**170**	**580**

YEAR AND MONTH	COVERAGE[4]			SERVICING VOLUME[1]				NOTES PAYABLE[1] (End of Month Balances)			
	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	96	88	385,270	321,620	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH					END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.
[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3] Series labeled non-residential are also inclusive of farm data.
[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5] Year-to-date seasonally adjusted series not calculated.

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MORTGAGE BANKING

AUGUST 1985

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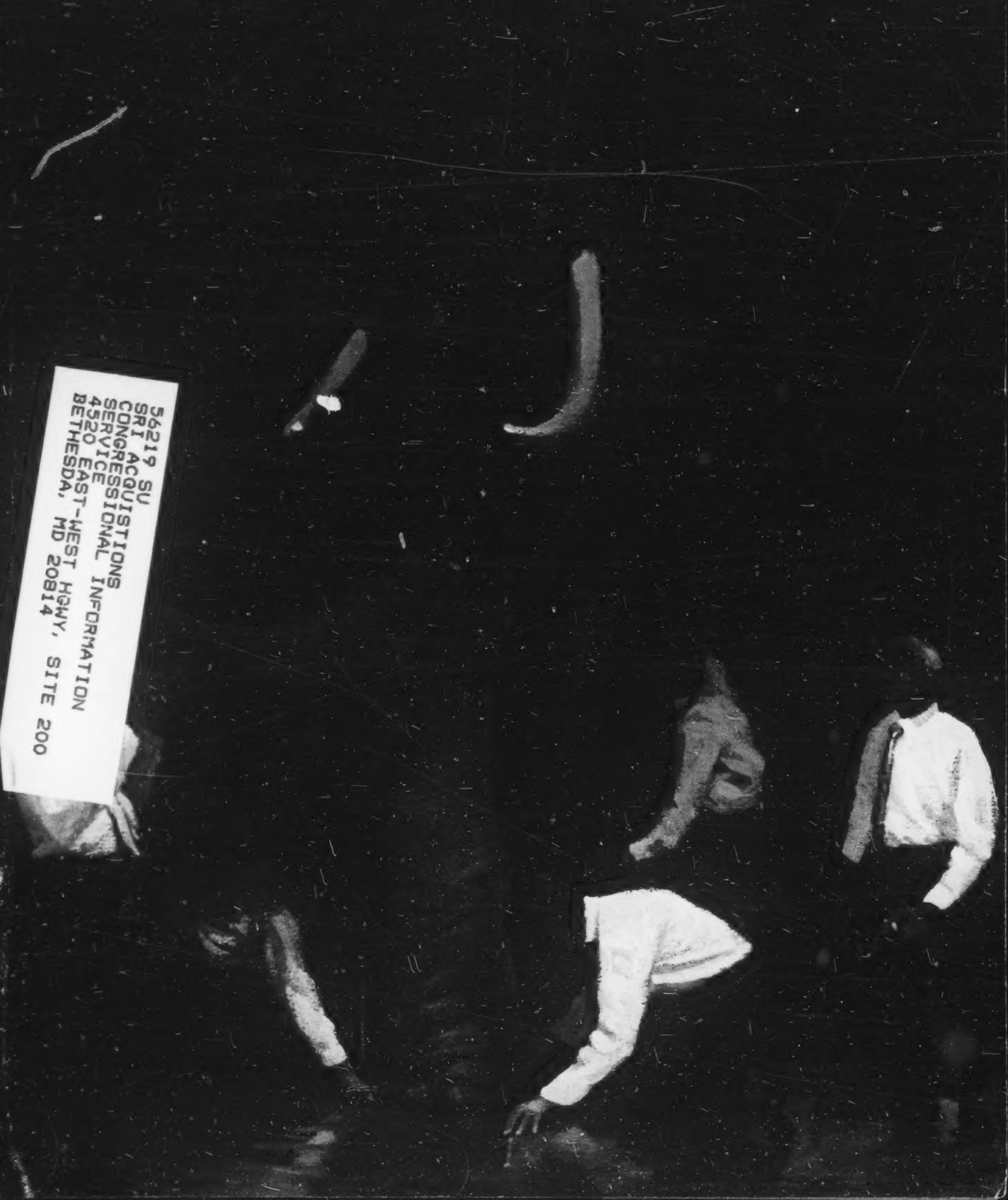

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MORTGAGE BANKING

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ARTICLES

PAGE 8
SERVICING COSTS: PUTTING THE PIECES TOGETHER
Dr. Victor Cholewicki

To determine a firm's profitability, an analysis of the income and expense of a servicing operation must be made. This article contains extensive comparative servicing cost and income data for mortgage banking firms based on MBA's *Income and Cost for Originations and Servicing of 1-4- Unit Residential Loans, 1983.*

Page 24
GNMA SERVICING: PAYING THE PRICE
Herbert L. Carrel, CMB

GNMA servicing provides the best dollar for dollar value to a servicer and the highest prices are now being paid for GNMA servicing. But there are additional costs a servicer incurs that are not generally computed in cost and analysis.

PAGE 42
STRATEGIC VIEW OF SERVICING EXPENSES
Chester R. Bear, Jr.

Because of inaccurate measuring standards or no standards at all, there is a misconception that bigger is always better and the more mortgage bankers get, the cheaper it becomes. There are many variables and what seems to be a high figure for one company might, in reality, be much more competitive if all of the components were the same.

PAGE 55
YIELD: THE REALISTIC WAY TO EVALUATE A MORTGAGE SERVICING PORTFOLIO
Hunter W. Wolcott

The most important task in fixed-income portfolio management is, and always has been, balancing risk and yield. Managing a portfolio of mortgages and mortgage pass-throughs is somewhat more challenging. Investing in servicing takes the challenge to the limit.

PAGE 63
BITING THE REO BULLET
Carole R. Adams and Jack W. Newton

It could be said that an REO was proof that somewhere along the line, somebody goofed. Lenders have "amortized" losses, preferring to hide the problem rather than face up to them and work out satisfactory solutions. No lender wants them; no lender likes them; but every lender has them.

PAGE 73
TAKING RISKS AND MAKING CHOICES
Peggy Crawford and Phyllis A. Garrity

An increasing number of homeowners are willing to accept the risks associated with ARMs. But, do borrowers fully understand the risk associated with the instruments they accept? How do borrowers evaluate the mortgage instruments available to them? Are the individuals who accept ARMs less risk averse than individuals who accept FRMs? These questions are addressed in this study.

PAGE 78
HARVEST TIME: LIMITED SECURITIES SUBSIDIARIES
Robert J. Corletta

The sale, packaging and participation in real estate limited partnerships are not exclusive to the Wall Street firms. For smaller financial services companies, mortgage banking companies and S&Ls, a limited securities broker/dealer firm may provide an additional profit center that is a natural extension of current operations.

PAGE 86
THE "YUPPIE MORTGAGE:" INSTRUMENT OF THE 1980s
Doug Gallagher

The yuppie mortgage loan results in an early payoff because it provides more frequent payments than a normal fixed-rate loan. There are approximately 26.09 payments made by a yuppie loan borrower compared to only 12 monthly payments on a fixed-rate mortgage. The combination of larger payments and an accelerated repayment with a yuppie loan produces a reduction in the term by one third.

PAGE 95
THE LAST WORD (UNKNOWNS OF ARM SERVICING)
Larry Litton

It is essential to track the performance of ARMs by the overall ARMs portfolio, as well as by individual ARM types. It is good management to maintain delinquency and foreclosure data by loan type.

DEPARTMENTS

PEOPLE 101
BOOKS 105
SECONDARY MORTGAGE MARKETS 107
MORTGAGE MARKET TRENDS 109
AD INDEX 119

SERVICING COSTS:

Putting The Pieces Together

By Dr. Victor Cholewicki

The increasing tendency to view servicing portfolios as marketable assets rather than as fixed-capital investments has created an upsurge in the demand for servicing volume. Some major brokerage firms now trade servicing portfolios like financial instruments. In the past 12 months, approximately $25 billion dollars worth of servicing has changed hands as a result of mergers and acquisitions of firms with substantial servicing portfolios. The Government National Mortgage Association (GNMA) reports that $22 billion worth of servicing of FHA/VA (Federal Housing Administration/Veterans Administration) loans backing GNMA MBSs, (mortgage-backed securities) were involved in changes of servicer of record in fiscal 1984.

The growth in demand for servicing has driven prices paid for servicing portfolios up. Prices for servicing portfolios have recently run as high as 2½ to 3 points compared to the traditional price of one point, which was the norm well into the early 1980s.

The growing interest in servicing portfolios and their importance as a key factor in a firm's profit calculation make the analysis of the income and expense of the servicing operation extremely important. This is especially true for the period covered in this study, 1979 through 1983, a period of high inflation, emerging delinquency and foreclosure problems and the introduction of new instruments into firms' portfolios.

The most extensive available source of comparative servicing cost and income data for mortgage banking firms is Income and Cost for Origination and Servicing of 1- to 4-Unit Residential Loans, 1983 *soon to be published by the Mortgage Bankers Association of America (MBA). Based on data collected in the annual "Cost Study" surveys, the most recent study covers the years 1979 through 1983. Firms responding to the survey accounted for more than 30 percent of total dollar volume serviced by mortgage bankers in each of the five years. In 1983, survey respondents' total servicing portfolios represented 42 percent of the dollar volume of all 1- to 4-unit nonfarm residential mortgage loans serviced by mortgage bankers. Much of the following is based on data that will be reported fully in the MBA "Cost Study."*

Mortgage bankers experienced increased competition in the servicing of mortgage loans, as well as a changing market environment and structural changes within the industry over the five years surveyed. The emerging trend on the part of some companies to purchase servicing rather than to originate it, together with the increasing tendency of originators to accept lower servicing fees, has resulted in a decline in profit margins and net servicing income per dollar serviced. The trend toward specialization in the servicing area by some mortgage banking firms is perhaps best illustrated by the increasing share of total costs attributable to the amortized cost of purchased servicing. These costs rose to 21.4 percent of total servicing expenses in 1983 compared with their 13.5 percent share in 1979. (See Table 1). Further, there is every indication that the trend on the part of many firms to increase their servicing portfolios through acquisitions will continue.

Servicing fees as a percent of dollar serviced were found to have declined in 1983 as reported by survey respondents. Part of the decline could be attributed to the growing practice of fee splitting, often with an affiliated firm for whom a portfolio is serviced. However, the remainder was the result of competitive pressure on fees as firms continued to add significantly to servicing portfolios.

Personnel costs, the dominant cost factor in the servicing sector, rose substantially from year to year in the period studied. However, because personnel costs moved in tandem with average loan size, personnel expense as a percent of dollar serviced remained hardly changed over the entire interval. Also, personnel costs as a percent of net servicing expense (gross servicing expense minus the amortized cost of purchased servicing) showed a gradual decline over the survey period.

The servicing of 1- to 4-unit residential mortgage loans is an activity that is currently in a period of transition and structural change. A consideration of the data generated by the "Cost Study"

continued

ILLUSTRATION BY SHELDON GREENBERG

surveys could clarify the nature of the change and identify the most important trends.

Servicing Income

In the inflationary environment of 1980, servicing income and expenses increased sharply but at roughly the same rate, leaving net income per loan virtually unchanged. The average loan-amount-serviced[1] increased to $25,933.24, a 14.9 percent rise over the 1979 figure. (See Table 2). That caused an 18 percent increase in servicing fee per loan, which in turn, translated into a 19 percent increase in net servicing income per loan to $65.26 compared with the 1979 figure at $55.00 (See Tables 3 and 6). Profit margin on servicing reached 54.5 percent, a slight improvement over the 54.4 percent recorded in 1979.

Much of the increase in servicing expense per loan observed in 1980 was due to a rise in the amortized cost of purchased servicing, which accounted for $4.00 of the $8.09 increase in servicing expenses per loan registered. (See Table 1). The increase to $10.25 in 1980 from the $6.25 level of 1979 represented a 64 percent increase in this cost category and increased its share of total expenses to 18.9 percent in 1980 from 13.5 percent in 1979. On an industry-wide basis, mortgage bankers increased their servicing portfolios by 128 percent of their 1980 originations. Service corporations of savings and loan institutions appear to have been particularly active in acquiring loans servicing-released during this period.

Dr. Victor Cholewicki is an assistant economist for the Mortgage Bankers Association. He received his Ph.D. in Economics from Brown University. Before joining MBA, Dr. Cholewicki served on the faculty at Boston University and at the Catholic University of America.

> **"Some major brokerage firms now trade servicing portfolios like financial instruments. In the past 12 months, approximately $25 billion dollars worth of servicing has changed hands as a result of mergers and acquisitions of firms with substantial servicing portfolios."**

Net servicing expense per loan increased 10.2 percent to $44.13 in 1980, due primarily to an increase in personnel and occupancy expenses. (See Tables 1 and 5). Compensation per employee ballooned to $14,745.80, a 16.8 percent jump from the $12,686.80 level of the previous year. However, due to the surge in average loan size serviced, the net servicing expense ratio (net servicing expense as a percent of dollar serviced) actually fell to .1702, the lowest level for this entity in the five years surveyed.

Key variables

Most of the key variables in servicing activity held remarkably steady in 1981. Servicing income per loan rose 5.3 percent while expenses rose 7.9 percent. The result was a 3.1 percent rise in net servicing income per loan to $67.31. The increase in income per loan was attributable to an increase in average loan size serviced of 6.9 percent. However, this was somewhat offset by a decline in servicing fee as a percent of dollar serviced to .3956, down from .4018 the year before. The increase in expense was due almost entirely to a 5.6 percent rise in the average compensation of servicing personnel, which was the primary cause of a 9 percent increase in net servicing expense per loan. Amortized cost of purchased servicing was not a major factor in the increase in servicing costs in 1981. This entity rose

continued

TABLE 1

Servicing Expenses Per Loan*

Expenses	1979	1980	1981	1982	1983
Personnel	$22.28	$24.73	$26.41	$29.12	$33.66
Pct. Incr. Over Prev. Yr.	—	11.0	6.8	10.3	15.6
Occupancy	$ 1.91	$ 2.18	$ 2.83	$ 3.08	$ 3.48
Pct. Incr. Over Prev. Yr.	—	14.1	29.8	8.8	13.0
Other Direct	$11.45	$11.50	$13.20	$16.54	$15.78
Pct. Incr. Over Prev. Yr.	—	0.0	14.8	25.3	(4.6)
G&A (Net of Am. Cost of Purch. Servicing)	$ 4.42	$ 5.72	$ 5.67	$ 6.40	$11.72
Pct. Incr. Over Prev. Yr.	—	29.4	(0.9)	12.9	83.3
Amortized Cost of Purchased Servicing	$ 6.25	$10.25	$10.58	$15.03	$17.88
Pct. Incr. Over Prev. Yr.		64.0	3.2	42.1	19.0
Total Gross Expenses	$46.29	$54.38	$58.69	$70.19	$83.52
Pct. Incr. Over Prev. Yr.	—	17.5	7.9	19.6	19.0
Percent of Total Gross Expenses					
Personnel	48.1	45.5	45.0	41.5	40.3
Occupancy	4.0	4.0	4.8	4.4	4.2
Other Direct	24.8	21.1	22.5	23.6	20.1
G&A (Net of Am. Cost of Purch. Servicing)	9.6	10.5	9.7	9.1	14.0
Amortized Cost of Purchased Servicing	13.5	18.9	18.0	21.4	21.4

*For definitions of categories see Table 6.

“The emerging trend on the part of some companies to purchase servicing rather than to originate it, together with the increasing tendency of originators to accept lower servicing fees, has resulted in a decline in profit margins and net servicing income per dollar serviced.”

a mere 3.2 percent per loan for survey respondents in 1981, which was the only year of the five surveyed in which mortgage bankers industry-wide added less to their servicing portfolios in terms of dollar volume than they originated.

Although net income per loan rose slightly, profit margin suffered a mild decline, falling to 53.4 percent in 1981 compared to the 54.5 percent recorded in 1980.

Delinquencies and foreclosures emerged as important factors in 1981, as rates for both increased significantly. Net loss on foreclosures leaped to $0.92 per loan in 1981, up 475 percent from the 1980 figure of $0.16. The upward racheting of this figure signalled the beginning of the foreclosure problems facing the mortgage lending industry today. This item would continue to rise significantly in subsequent survey years.

Personnel

Servicing expense per loan soared 20 percent to $70.19 in 1982 compared with the $58.68 figure recorded in 1981. This was partly due to a 5.6 percent rise in compensation per servicing personnel to $15,567.80 in 1982 up from $14,745.80 in 1981, together with a slight but significant decline in number of loans serviced per servicing employee. The result was 10.3 percent increase in personnel expense per loan serviced over the 1981 level. Personnel expense as a percent of dollar serviced rose to 9.5 basis points compared with the 9.2 basis point figure of the previous year.

Another significant source of cost inflation in 1982 was other direct expenses—the office supplies, equipment and services necessary to do business. Other direct expenses per loan rose 25.3 percent in 1982 to $16.54 compared with the 1981 level of $13.20. The increase was spread evenly through almost all categories. The sudden jump of this expense category, which grew at a “normal rate” in the previous survey years, could reflect a basic change in the way firms did business, perhaps a change in the mix of loans that they were servicing, e.g., a greater proportion of adjustable rate mortgages (ARMs). (The servicing of ARMs requires more contact with the borrower.) The slight decline in number of loans serviced per servicing employee would also fit this scenario. Most of the

continued

TABLE 2

Servicing Fee	1979	1980	1981	1982	1983
Average Servicing Fee Per Loan	$ 88.19	$ 104.19	$ 109.64	$ 118.06	$ 123.23
Pct. Incr. Over Prev. Yr.		18.1	5.2	7.7	4.4
Average Servicing Fee As Percent of Dollar Serviced	.3908	.4018	.3956	.3988	.3752
Pct. Incr. Over Prev. Yr.		2.8	(1.5)	0.8	(5.9)
Average Size Loan Serviced[1]	$22,568.87	$25,933.24	$27,715.17	$29,604.21	$32,842.55

TABLE 3

Servicing Income and Expense, Per Loan, for 1- to 4-Unit Mortgage Loans Serviced

	1979	1980	1981	1982	1983
Servicing Income	$101.29	$119.64	$125.99	$138.66	$144.92
Servicing Expense	$ 46.29	$ 54.38	$ 58.68	$ 70.19	$ 83.53
Net Servicing Income	$ 55.00	$ 65.26	$ 67.31	$ 68.47	$ 61.39
Margin	54.3%	54.5%	53.4%	49.4%	42.4%
Percent Change From Prior Survey Year					
Servicing Income		18.1	5.3	10.1	4.5
Servicing Expense		17.5	7.9	19.6	19.0
Net Servicing Income		18.7	3.1	1.7	(10.3)
Income As Percent of Dollar Serviced	.4488	.4603	.4546	.4684	.4413
Net Servicing Income As Percent of Dollar Serviced	.2437	.2516	.2429	.2313	.1869

TABLE 4

Net Servicing Expense	1979	1980	1981	1982	1983
Servicing Expense Minus Amortized Cost of Purchased Servicing	$40.04	$44.13	$48.11	$55.14	$65.65
Pct. Incr. Over Prev. Yr.		10.2	9.0	14.6	19.1
Servicing Expense Minus Amortized Cost of Purchased Servicing As Pct. of Dollar Serviced	.1774	.1702	.1736	.1863	.1999

items in this category would continue to show slower but still vigorous growth in the subsequent survey year.

The other important factor in the increase in servicing expense per loan observed in 1982 was the sharp rise in the amortized cost of purchased servicing. This cost component reached $15.03 per loan in 1982 compared with the $10.58 figure of 1981, a 42 percent increase. The share of total servicing cost represented by the amortized cost of purchased servicing rose to 21.4 percent in 1982, up significantly from the 18 percent share recorded the previous year. Substantial increases in this cost category were registered by firms controlled by bank holding companies and by other controlled subsidiaries. Industry-wide, mortage bankers added to their servicing portfolios by a dollar amount 39 percent larger than their own origination volume in 1982.

continued

TABLE 5

Servicing Personnel

	1979	1980	1981	1982	1983
Number of Loans Serviced Per Servicing Employee	591	602	617	611	582
Pct. Incr. Over Prev. Yr.		1.8	2.5	(0.9)	(4.8)
Average Compensation, Servicing Personnel	$12,686.80	$14,745.80	$15,567.80	$17,083.90	$18,579.40
Pct. Incr. Over Prev. Yr.		16.8	5.6	9.7	8.8
Servicing Personnel Expense As Percent of Dollar Serviced	.0923	.0888	.0920	.0952	.0973
Personnel Expense As Percent of Net Servicing Expense	55.6	56.0	54.9	52.6	51.3

TABLE 6

Income Statement: Servicing, Average Firm, 1979-1983

	1979	1980	1981	1982	1983
INCOME:					
Servicing Fee, First Mortgage Loans	$ 88.15	$103.48	$109.21	$117.57	$122.91
Servicing Fee, Non-First Mortgage Loans	.04	.71	.43	.49	.32
All Other Loan Admin. Income					
Other Loan Admin. Income	12.00	13.87	15.29	18.59	22.12
Net Gain or Loss on Foreclosures	(.28)	(.16)	(.92)	(1.11)	(1.75)
All Other Operating Income	1.37	1.74	1.98	3.12	1.32
TOTAL GROSS SERVICING INCOME	101.28	119.64	125.99	138.66	144.92
Expenses					
PERSONNEL:					
Loan Administration	18.35	20.46	21.55	23.14	27.18
Mgt. Not Classified Above	.25	.27	.26	.18	.07
Directors	.00	.00	.00	.02	.36
All Others	.35	.43	.68	1.13	.84
Employee Fringe Benefits	3.33	3.57	3.92	4.65	5.21
OCCUPANCY	1.91	2.18	2.83	3.08	3.48
OTHER DIRECT:					
Edp Svc. Charge & Rentals	5.03	4.25	5.57	6.78	5.69
Other Equipment Rentals	.67	.77	.75	1.10	1.30
Postage	1.55	1.55	1.71	2.04	2.20
Telephone & Telegraph	2.00	2.31	2.52	3.33	3.79
Office Supplies	1.47	1.73	1.71	2.13	2.60
Travel & Entertainment	.41	.51	.55	.80	.76
Automobiles	.29	.36	.35	.28	.35
Advertising	.02	.02	.04	.08	.09
G&A:					
Legal & Auditing Fees	.28	.55	.52	1.48	.77
Provision for Loan Losses	.29	.48	.86	(0.09)	2.43
All Other Operating Expenses	3.85	4.69	4.29	5.01	8.52
AMORT. COST OF PURCHASED SERVICING	6.25	10.25	10.58	15.03	17.88
TOTAL GROSS SERVICING EXPENSE	46.28	54.38	58.69	70.19	83.53
NET SERVICING INCOME	55.00	65.26	67.30	68.47	61.39
Number of Firms	93	99	121	86	113

> **"Personnel compensation is the most important cost element in the servicing operation, typically accounting for more than half of all expenses, net of the amortized cost of purchased servicing."**

A further and apparently not fully anticipated increase in foreclosures, resulted in a negative loan loss provision for 1982 of minus $0.09 per loan. Net loss on foreclosures reached $1.11 per loan, up from the $0.92 figure of 1981.

Servicing income per loan increased to $138.66 in 1982, a 10 percent gain over the $125.99 level registered in 1981. This was due to a 6.8 percent increase in average loan size serviced to $29,604.21, and to a 1 percent increase in servicing fee as percent of dollar serviced to .3988. As a result, servicing income as a percent of dollar serviced grew 3 percent to .4684.

Even though net servicing income per loan increased by 2 percent to $68.47 in 1982 compared with the 1981 level of $67.31, alternative measures might suggest a lessening of profitability in servicing. Profit margin dropped to 49.4 percent in 1982 compared with 53.4 percent in 1981, the first time this measure fell below the mid-50s range in the five years surveyed. Also, net income as percent of dollar serviced fell 5 percent in 1982 to .2313, down from the .2429 level of the previous year. Both the precipitous drop in profit margin and the decline in net income as a percent of dollar serviced were sharp departures from the trends of the previous three years.

The seemingly disappointing drop in profit margin and the anemic increase in net income per loan could well be consistent with continued or even increased profitability of servicing, particularly for firms with large volumes of purchased servicing. Purchased servicing yields less net income than servicing on a comparable loan originated by the firm itself due to the fact that the purchase price enters into the cost calculation in the form of the amortized cost of purchased servicing. The larger the percentage of the servicing portfolio that was purchased, the lower will be the net income per loan and profit margin for the entire portfolio. However, providing that the income generated by the loan is greater than the additional expense required to service it (including the amortized cost of purchased servicing) the purchased loan adds to total profit.

For purposes of the income statement, servicers who originate all of their own servicing show additions to the portfolio to their servicing operation as being free of charge. However, in most cases the origination operation generates negative net income in the loan production process, which is, in effect, the price the firm pays to add to its servicing portfolio. Relying only on the servicing operation's income statement to determine the effects on profitability of purchasing servicing provides a somewhat distorted picture—it underestimates the benefits of the purchased servicing portfolio. The fact that the purchase of servicing avoids losses on origination should be taken into account along with the lower net servicing income per loan generated by the purchased loans. Most originators find that on average it costs them less to originate a loan than to purchase the servicing at market prices. However, there are firms who feel that they can do better by purchasing their servicing rather than by originating it, and have little or no loan production

Table 7

Percent of Survey Respondents' Servicing Volume For Which The Average Servicing Fee As Percent of Dollar Serviced Was Less Than 25 Basis Points

1979	1980	1981	1982	1983
1.2%	3.8%	4.8%	3.3%	10.8%

Table 8

Percent of Conventional Mortgage Loans Originated for 1- To 4-Unit Residential Properties to Total Dollar Volume of Originations by Survey Respondents

1979	1980	1981	1982	1983
27.0%	28%	36.7%	37.9%	40.1%

Profits decline

Most standard measures of servicing profitability declined sharply in 1983. Net servicing income per loan fell 10 percent to $61.39 compared with $68.47 in 1982, the first decline in this measure in the five years surveyed. Net servicing income as a percent of dollar serviced plunged 21 percent in 1983 to .1869, down from .2313 in 1982, intensifying the previous year's trend (see Table 3). Profit margin fell to 42.4 percent, down from the already lowered 49.4 percent figure of 1982.

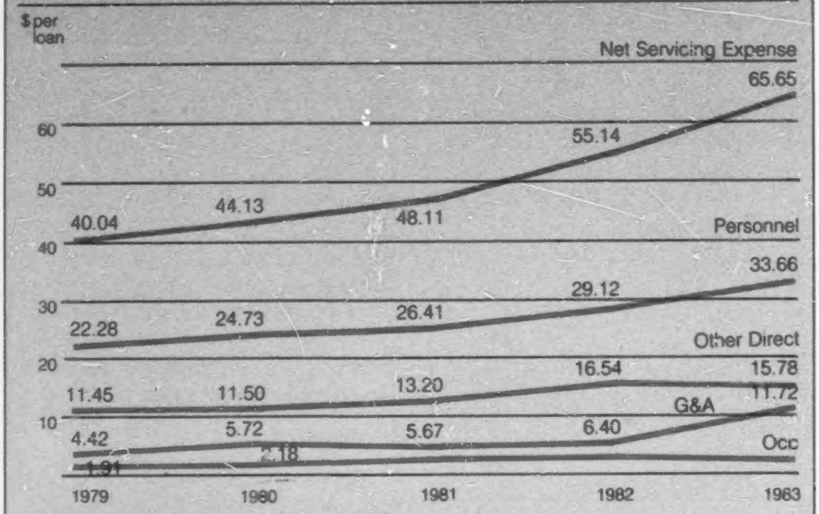
The major cause of the deterioration of the profitability measures mentioned above was the 6 percent drop in servicing fee as percent of dollar serviced to .3752 in 1983, down from .3988 in 1982, the first significant decrease in this figure in the five years surveyed. The decline in servicing fee largely offset the 10.9 percent increase in average loan size serviced to $32,842.55, up from $29,604.21 in 1982. The result was a modest 4 percent increase in both servicing income and servicing fee per loan as the strong gain in average loan size barely offset the 2.36 basis point drop in servicing fee.

Fee splitting

Part of the observed reduction in servicing fee as a percent of dollar serviced reported by survey respondents may just be a matter of how the fee was entered in the books. It appears that there was a significant increase in fee splitting by 1983 survey respondents. This would explain a portion of the decline. In the 1983 survey, firms reporting average servicing fees as percent of

continued

GRAPH 1 SERVICING EXPENSE PER LOAN, AVERAGE FIRM, 1979-1983



GRAPH 2 AMORTIZED COST OF PURCHASED SERVICING PER LOAN, AVERAGE FIRM, 1979-83

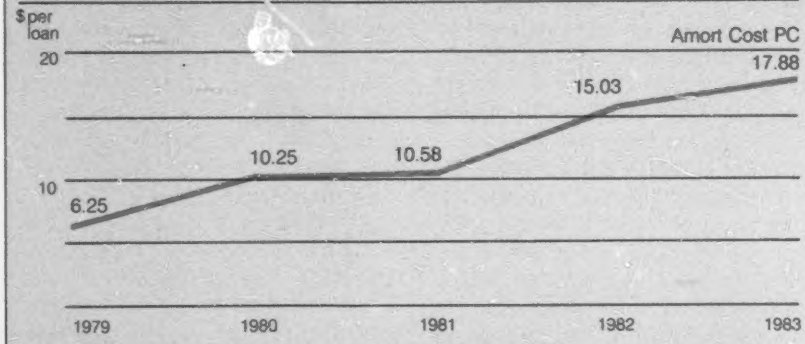


TABLE 9 Average Loan Size Related To Servicing Fees As Percent Of Dollar Serviced, 1983

Number Firms	Servicing Fee Pct. Dollar Loan Amount	Average Loan Size
20	0 to .30	38,846.20
22	.301 to .375	30,506.20
24	.376 to .410	31,582.80
24	.411 to .440	32,575.80
23	GE (greater or equal to) .441	33,926.10

dollar serviced as being less than 25 basis points accounted for 11 percent of the total dollar servicing volume of the survey respondents. This was a dramatic increase over the comparable figure for the 1979 to 1982 surveys that ranged between 1 and 5 percent. Thus, although the servicing fee kept by the servicer may be declining, the total servicing fee paid as a percent of dollar serviced may not be decreasing nearly as drastically. (See Table 7)

Most of the firms receiving less than 25 basis points on their portfolios were efficient servicers of large servicing volume. Many were affiliated with larger parent entitities. On the basis of other indicators, it appears that their loans yielded above average servicing fees but that they retained only a portion on their own servicing income statements.

However, part of the decline in servicing fees observed in the 1983 data represents a real decline in the servicing fee generated by the loan as opposed to the percent of the fee actually entered in the servicers' books. The increasing percentage of conventional loans originated by mortgage bankers may have contributed to this decline. Conventional originations as percent of total dollar volume originated by survey respondents increased from 27.0 percent of 1979 to 40.1 percent in 1983 (See Table 8).

"Part of the observed reduction in servicing fee as a percent of dollar serviced reported by survey respondents may just be a matter of how the fee was entered in the books."

Conventional loans typically have lower servicing fees than the 44 basis point servicing fee available for Ginnie Mae pools.

A further factor could be the increased volume of loans originated with the proceeds of mortgage revenue bonds. Public housing authorities typically offer lower servicing fees. In some jurisdictions, servicing rights are awarded on the basis of competitive bidding. This can result in servicing fees in the low 20s (in basis points). A final factor may have been a reduction in servicing fees offered by builders whose product serves as collateral for homebuyer (builder) bonds.

Administrative expenses

Servicing expense per loan shot up again in 1983, rising 19 percent to $83.53. Net servicing expense also rose 19 percent due primarily to a sharp rise in general and administrative expense as well as an increase in personnel expenses. In addition, the amortized cost of purchased servicing per loan registered a substantial gain.

General and administrative expense per loan jumped 83 percent in 1983 to $11.72 compared with the $6.40 figure recorded in 1982. This was caused by

continued

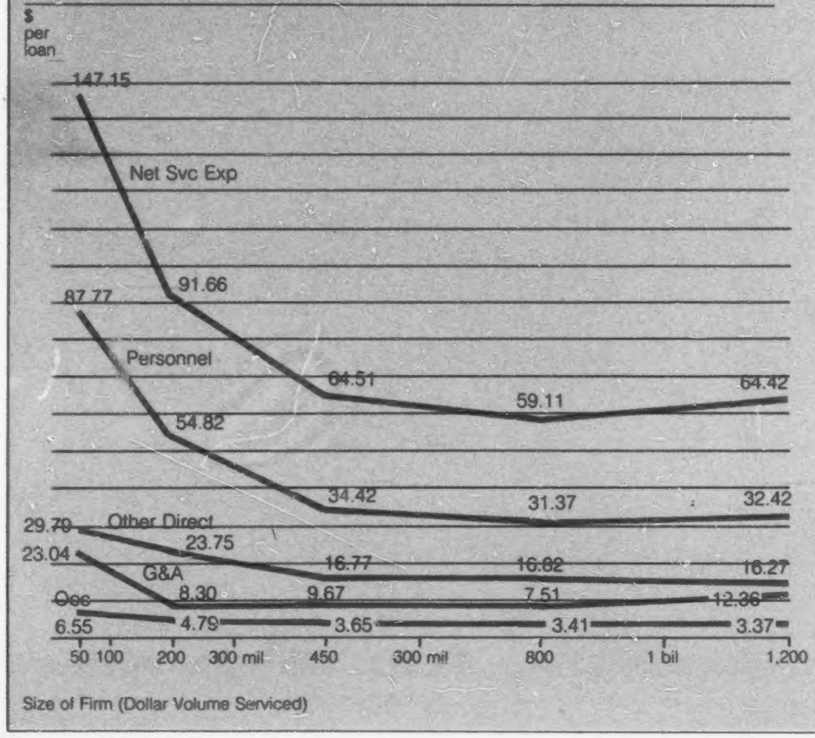
large increases in both provisions for loan losses and in all other operating expenses. The increase in provision for loan losses to $2.43 per loan, almost three times the highest previous level for this item in the five years surveyed, reflects the onset of delinquency and foreclosure problems. The 1983 figure represented almost 4 percent of net servicing expense, an unprecedented share of expenses for this item in the five years surveyed. The increase in general and administrative expenses that included an increase of $3.51 per loan in the all other expenses category, was responsible for more than half of the increase in net servicing expenses in 1983.

TABLE 10 SERVICING INCOME & EXPENSES PER LOAN, GROUPED BY MILLION $ SERVICED, 1983*

Size of Firm Dollar Volume Serviced (in millions)	UNDER $100	$100 to $300	$300 to $600	$600 to $1 Bil.	Over $1,000
INCOME:					
Servicing Fees (on 1st and non-1st mortgages)	$120.29	$128.25	$124.16	$115.91	$123.36
All Other Loan Administration Income	34.01	15.20	26.35	18.80	21.60
GROSS INCOME	154.30	143.45	150.51	134.71	144.96
EXPENSES:					
Personnel	87.77	54.82	34.42	31.37	32.42
Occupancy	6.55	4.79	3.65	3.41	3.37
Other Direct	29.79	23.75	16.77	16.82	16.27
Amortized Cost Of Purchasing Servicing	0.85	1.97	6.35	11.74	20.42
Other G&A	23.04	8.30	9.67	7.51	12.36
GROSS EXPENSES	148.00	93.63	70.86	70.85	84.84
NET INCOME	6.30	49.82	79.65	63.86	60.12
Average Loan Size Serviced	$22,648	$32,968	$32,447	$31,858	$33,090
Servicing Fee as percent of dollar serviced (in basis points)	53	39	38	36	37
Net Servicing Expense	$147.15	$91.66	$64.51	$59.11	$64.42
Number of Loans Serviced Per Servicing Employee	225	287	637	619	601
Number of Firms	14	17	26	15	41

*For definitions see Table 6

GRAPH 3 SERVICING EXPENSE PER LOAN GROUPED BY DOLLAR VOLUME SERVICED, 1983



The remainder of the increase in servicing expense was largely attributable to the 15.6 percent increase in personnel expenses per loan to $33.66 compared with $29.12 the previous year. Personnel expenses as percent of dollar serviced also increased, reaching 9.7 basis points. This was caused by an 8.8 percent increase in compensation per servicing employee together with a 4.8 percent decline in the number of loans serviced per employee. Continuing the pattern of the previous year, the fall in the number of loans serviced per servicing employee could reflect both increased delinquency problems faced by firms and a changing mix of loans in portfolio.

Other direct expenses per loan declined slightly, dropping 4.6 percent from the 1982 level. This was due to a large decrease in electronic data processing expenses to $5.69 per loan, down 16 percent from the $6.78 figure of the previous year. The 1983 figure was more in line with the level of the first three survey years than the unusually high level recorded in 1982. The remaining items in the other direct category continued to show vigorous growth though not as strong as in 1982.

The amortized cost of purchased servicing also increased in 1983, rising to $17.88 per loan, a 19 percent increase over the $15.03 level of the previous year. This was consistent with the industry-wide pattern in which mortgage bankers added 17 percent more to their servicing portfolios than they originated.

Major components

Focusing on the major component parts of the servicing operation: fees, personnel expense and the amortized cost of purchased servicing could help determine some of the principal factors underlying each. Most of the illustrations draw on 1983 data.

By far the largest part of servicing income is derived from servicing fees, mainly on first mortgages. The magni-

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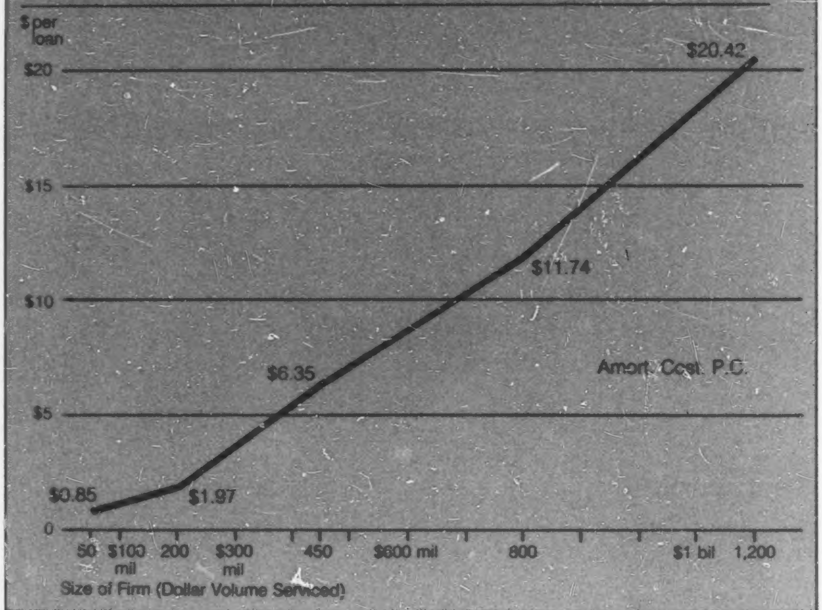
GRAPH 4 AMORTIZED COST OF PURCHASED SERVICING PER LOAN, GROUPED BY DOLLAR VOLUME SERVICED, 1983



tude of these fees, per loan, is determined by the servicing fee as percent of dollar serviced and by the average dollar loan amount. The data suggest that portfolios with very low servicing fees as percent of dollar serviced (less than 30 basis points) were associated with high loan amounts. (See Table 9). However, for portfolios with servicing fees averaging more than 30 basis points, higher servicing fees as percent of dollar serviced tended to correspond with somewhat higher average loan sizes. The high average loan amount associated with servicing fees less than 30 basis points reflects the incidence of fee splitting.

A remarkably high degree of similarity was found to exist in regard to servicing fees for firms with portfolios of more than $100 million. On average, these firms received roughly $120 per loan in servicing fees on first mortgages on loans that averaged about $33,000 in size; that worked out to approximately 37 basis points. (See Table 10). This was very near the industry average. The largest firms, those with portfolios of more than $1 billion, tended to bunch in the middle of the range in both servicing fee as percent of dollar serviced and in average loan amount and consequently in servicing fee per loan. Firms with less than $100 million in servicing, however, tended to have significantly smaller average loan size ($22,648) and higher servicing fees (53 basis points). This suggests that many of these firms have highly seasoned loan portfolios. Also, smaller firms tend to do proportionately more construction lending and originate more second mortgage loans, both of which yield higher servicing fees.

Personnel compensation is the most important cost element in the servicing operation, typically accounting for more than half of all expenses, net of the amortized cost of purchased servicing. This magnitude is determined by the number of loans serviced per servicing employee and by the compensation level. The number of loans serviced per servicing employee tends to be related to dollar volume serviced. Increases in servicing personnel efficiency tend to occur up to the range of $300 to $600 million dollars serviced. (See Table 10). For larger portfolios, the number of loans serviced per servicing employee tends to taper off somewhat. Compensation levels tend to rise as servicing per servicing employee rises, diminishing to some extent the impact of servicing efficiency on personnel expense per loan serviced. The result is that firms with portfolios exceeding $300 million in dollar volume have roughly similar loan administration and net servicing expenses per loan. (See Graph 3 and Table 10). These firms have sharply lower net servicing expenses per loan than firms with servicing portfolios of less than $300 million in dollar volume.

Overall, net servicing expense per loan declines as dollar volume serviced increases, reaching a minimum for portfolios of more than $600 million but less than $1 billion, then rises slightly.

Servicing tends to be purchased by large firms to add to already profitable operations. (See Graph 4 and Table 10). Of the firms with the 35 highest amortized cost of purchased servicing per loan magnitudes, 33 had servicing portfolios in excess of $300 million and of these 22 had portfolios in excess of $1 billion. Further, efficiency in servicing does not appear to have been the primary reason for the firms' decision to purchase servicing. The firms with the 35 highest amortized cost of purchased servicing per loan figures, averaged 587 loans serviced per servicing employee, only 2.3 percent higher than the average for the remaining 78 surveyed firms. Also, the characteristics of the loans purchased servicing-released do not appear to be the determining factor. The firms with the 35 highest amortized cost of purchased servicing per loan figures averaged about the same servicing fee as percent of dollar serviced as the 41 firms that originated all of their own servicing.

Competition in the servicing area can be expected to remain strong. Pressures to reduce servicing fees will continue, as evidenced by the current effort to push the FHLMC servicing fee floor down to 25 basis points from the current 37.5. At the same time, delinquency problems and adjustments to changing portfolio mixes may well have boosted the net servicing expense ratio by 2½ basis points during the 1982 to 1983 period. Nevertheless, servicing can be expected to remain a highly profitable activity for the efficient firm with a low risk portfolio. □

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[1] The average dollar loan amount figures have been adjusted to reflect the average principal balance over the course of the year. They are the average of beginning and end of year total dollar loan amount divided by the average of beginning and end of year number of loans serviced. This figure provides a more accurate determination of income and expenses as a percent of dollar serviced. If the end of the year dollar loan amount serviced divided by end of year number of loans serviced were used, it would overstate the average dollar loan amount and therefore understate income and expense as percent of dollar serviced. For reference, the *end of year* average dollar loan amounts are given below:

	1979	1980	1981	1982	1983
End of year average dollar loan amount	$24,137.04	$27,844.83	$28,607.55	$30,478.48	$34,581.95

MORTGAGE MARKET TRENDS

At this time, conventional wisdom holds that despite the upward movement of some economic variables during May, the second quarter's flash estimate for real GNP (gross national product) will be revised downward to about 2 percent from its original rate of 3.1 percent. The flash estimate was based on the expectation that the trade sector would not continue to weaken during the second quarter at the same rate that it had in the first quarter of the year. However, the net export figures reported for April and May show that this is not likely to be the case. For instance, following an $11.9 billion jump in April 1985, the merchandise trade deficit widened by another $12.7 billion in May. The most recent monthly increase, the second largest on record, was mainly due to a surge of imports from Europe.

In broad terms, the root of the problem in the trade sector is the high value of the dollar, which despite some recent downward movement is now approaching the level it was at last summer, when it was judged by some analysts to be overvalued by as much as 40 percent. Although a strong dollar has its advantages, it is detrimental to U.S. trade because it causes foreign-made goods to be relatively less expensive than domestic products and U.S. exports to be relatively more expensive abroad. In addition, another factor exacerbating the trade situation is the weakness in the economies of U.S. trading partners. Due to their slower rate of growth, their imports from the U.S. have been on a declining trend. For example in April and May, U.S. exports fell 3.6 percent and 2.1 percent, respectively.

Although the steady deterioration of the net export picture has stifled economic growth in general, the problems caused by foreign competition are being felt most keenly by the manufacturing sector. It is probable that imports are the main reason that new factory orders have declined in three of the last four months. In the one month they rose, May 1985, the bulk of the increase came from orders for defense related goods, a highly volatile area. Further, after dropping 0.2 percent in April, industrial production fell 0.1 percent in May, leaving it no higher in May than it was in the summer of 1984. Moreover, this drop in industrial production caused another decline in the capacity utilization index, which has been trending downward all year. In May, output at the nation's factories, mines and utilities stood at 80.3 percent. Finally, even though the civilian unemployment rate remained at 7.3 percent for the fifth consecutive month in June, employment in manufacturing actually went down by 45,000 jobs, and since January 1985 has declined by 220,000 jobs. The numerous problems stemming from the interactions of these two sectors (i.e. trade and manufacturing) will probably keep real economic growth in the low to moderate range or around 2.5 percent for the remainder of the year.

Commensurate with the slowdown in economic activity, there has been a sharp drop in both long-and short-term interest rates, with the decline in short-term instruments being more pronounced. For instance, since mid-March short-term rates have fallen by approximately 200 basis points, while yields on long-term securities have dropped by about 150 basis points. Presently, one-year Treasury bills are averaging 7.09 percent, the lowest level they have been in seven years and long-term securities are averaging 10.50 percent. In line with these declines, several administered rates have also fallen during this period. In late May, the Fed cut the discount rate from 8 percent to 7.5 percent and in mid-June, the prime rate was dropped to 9.5 percent. In both cases, this is the lowest these rates have been since 1978. In addition, the VA rate has fallen by a percentage point, from 12.50 percent to 11.50 percent. As expected, conventional mortgage rates have dropped accordingly. Thirty-year fixed-rate mortgages are averaging about 12 percent and adjustable rate mortgages are approximately 150 basis points lower or around 10.50 percent. With economic growth expected to remain sluggish for the rest of the year, interest rates will drop another notch or two over the near-term and then stabilize. Mortgage rates in particular, will remain in the 11.5 percent to 12 percent range.

Propelled by this drop in interest rates, the housing sector has been one of the few bright spots in the economic picture this year. A number of variables seem to best reflect the underlying strength of this area. Foremost among these is new home sales, which rose a seasonally adjusted 9.7 percent in May, to reach an annual rate of 676,000 units. In addition, although existing home sales edged downward by 1 percent in May, all of the drop was concentrated in the South. The other three regions of the country registered sales increases. Even more importantly, despite the decline, the annual sales rate for existing homes remained above the 3 million unit mark for the third consecutive month. Moreover, in May new construction spending rose 1.5 percent and new construction contracts rose 1 percent. The increase in construction spending placed it at a record annual rate of $343.5 billion. Under the projected interest rate scenario, home sales, both new and existing, are expected to remain near their present levels over the near-term. In addition, refinancings should continue at the healthy pace they attained in the second quarter, and housing starts, after falling in May, will pick up again. Overall, this implies that origination activity will be strong through the third quarter and well into the fourth quarter.

Robert M. Rosenblatt
Assistant Economist
July 15, 1985

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	4+ Units	Total	1-4 Units	5+ Units
1985												
JAN	105	66	39	1,849	1,165	684	104	64	40	1,635	1,053	582
FEB	95	68	27	1,647	1,231	416	101	63	38	1,624	1,041	583
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	118	57	1,933	1,268	665	160	105	55	1,704	1,066	638
MAY	169	118	51	1,673	1,149	524	170	109	61	1,778	1,064	714
JUN	163	110	53	1,705	1,126	579	156	99	57	1,713	1,082	631
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
6 MONTHS												
1985	852	581	271				835	536	299			
1984	915	632	283				894	579	315			
1983	806	566	240				769	503	266			
1982	454	331	123				432	279	153			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1985																
JAN	10	8	56	32	248	270	826	505	13	8	53	31	271	208	699	457
FEB	7	6	50	31	260	185	745	457	11	7	50	33	266	187	678	493
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	26	22	80	48	293	247	874	519	24	22	71	43	258	223	760	463
MAY	25	28	72	45	239	251	743	440	28	27	72	45	267	263	784	464
JUN	27	27	68	41	289	239	752	425	26	25	64	42	279	253	746	435
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
6 MONTHS																
1985	110	108	400	234					122	106	378	233				
1984	86	115	479	235					94	104	442	252				
1983	75	95	456	182					72	82	428	188				
1982	43	60	262	88					44	49	246	92				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1984														
DEC	174	38	358	7.0	$193,037	$82,053	$29,866	$81,118	1,051	620	431	150	104	46
1985														
JAN	190	48	353	6.8	198,623	82,457	30,558	85,608	1,030	597	433	119	84	35
FEB	193	55	349	6.5	197,111	80,919	29,401	86,791	1,001	585	416	121	79	42
MAR	263	67	352	6.4	196,047	81,549	29,286	85,212	1,020	602	418	125	83	42
APR	283	57	361	7.1	202,543	82,851	28,500	91,192	1,067	628	439	126	91	35
MAY$_p$	294	65	360	6.5	202,612	83,941	29,357	92,314	1,105	661	444	132	84	48
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
5 MONTHS														
1985	1,223	292										623	421	202
1984	1,199	291										603	414	189
1983	1,047	267										447	326	121
1982	756	159										366	250	116

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
AUG	$26,296	$ 3,570	$ 12,532	$ 8,468	$ 1,726	$17,299	$ 3,070	$ 9,546	$ 4,619	$ 64
SEPT	20,860	3,050	9,654	7,278	878	13,369	2,400	6,889	4,023	57
OCT	23,075	3,700	9,643	8,806	926	15,217	3,110	7,188	4,813	106
NOV	21,562	3,370	9,219	7,818	1,155	13,639	3,090	6,445	4,060	44
DEC	28,852	5,250	10,619	9,414	3,569	15,873	4,090	6,914	4,789	80
1985										
JAN$_p$	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	297,406	53,160	129,482	97,776	16,988	196,139	44,500	96,187	54,626	826
1 MONTH										
1985	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
1984	20,601	4,870	7,818	7,158	755	14,144	4,190	5,839	4,067	48
1983	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54
1982	7,691	2,030	2,410	2,471	780	4,991	1,560	1,975	1,440	16

LENDER ACTIVITY (Cont'd.)

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.
1984										
AUG	$ 1,595	$ 0	$ 1,221	$ 350	$ 24	$ 7,402	$ 500	$ 1,765	$ 3,499	$ 1,638
SEPT	1,516	70	1,083	339	24	5,975	580	1,682	2,916	797
OCT	1,341	0	880	373	88	6,517	590	1,575	3,620	732
NOV	1,664	0	1,098	455	111	6,259	280	1,676	3,303	1,000
DEC	2,488	80	1,488	488	432	10,491	1,080	2,217	4,137	3,057
1985										
JAN$_p$	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	22,125	1,980	13,160	5,519	1,466	79,142	6,680	20,135	37,631	14,696
1 MONTH										
1985	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
1984	1,836	320	938	531	47	4,621	360	1,041	2,560	660
1983	1,532	650	529	312	45	3,389	180	605	1,913	757
1982	452	90	168	168	26	2,388	520	267	863	738

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.
1984										
AUG	$ 19,793	$ 2,920	$ 12,316	$ 3,682	$ 875	$92,436	$ 7,970	$52,800	$18,655	$13,011
SEPT	17,278	2,910	9,852	3,021	1,495	90,837	8,150	51,666	17,591	13,430
OCT	19,331	3,910	10,578	3,349	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,830	3,430	11,549	3,317	2,534	92,434	8,190	51,651	19,389	15,204
DEC	22,227	5,480	10,872	3,810	2,065	91,093	8,700	50,483	17,905	14,005
JAN	n.a.	n.a.	9,207	3,548	1,562	n.a.	n.a.	49,556	16,711	14,123
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	264,193	50,100	146,184	47,065	20,844					
1 MONTH										
1985	n.a.	n.a.	9,207	3,584	1.562					
1984	18,183	4,660	9,173	3,010	1,340					
1983	15,693	7,010	5,555	1,928	1,200					
1982	7,237	2,940	2,261	1,743	293					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA**	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
JAN	138	56	12	70	93	5,973	20	1,125	11	723	62	4,125
FEB	138	59	13	66	73	4,787	10	579	13	867	50	3,341
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	188	67	19	102	110	7,103	35	2,007	14	944	61	4,152
MAY	189	70	19	100	98	6,429	20	1,185	13	868	65	4,376
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
5 MONTHS												
1985	821	317	79	425	465	30,116	112	6,400	64	4,228	289	19,488
1984	798	198	87	513	570	36,353	102	5,459	99	6,390	369	24,423
1983	755	364	110	281	400	23,253	125	5,959	94	5,935	181	11,359
1982	292	115	41	136	180	9,902	40	1,656	32	1,843	108	6,403

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
JAN	1,300	1,943	36,915	913	3,030	4,264	2,197	1,984	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	2,074	1,703	41,613	1,004	n.a.	n.a.	n.a.	n.a.	6,073	3,595
JUN	1,593	1,904	42,755	1,519	n.a.	n.a.	n.a.	n.a.	3,324	3,609
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
6 MONTHS										
1985	10,419	10,880	—	10,495	*14,644	*13,540	*10,877	*9,497	24,139	17,888
1984	10,117	9,185	—	8,556	6,025	6,430	5,081	3,907	19,004	15,264
1983	9,037	8,988	—	7,388	6,410	7,445	7,754	7,391	37,950	25,781
1982	9,511	4,537	—	3,876	9,178	9,191	6,481	6,483	11,386	6,756

**—FHA Applications Received now includes the Direct Endorsement Program   *—4 Months Totals

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES FHA OPINION SURVEY FHA NEW[3]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA Manndatory Delivery Yields ARM (5 yr. Treas.)	FNMA Manndatory Delivery Yields Conv.	APARTMENTS[4]
1985								
JAN	13.01%	12.88%	12.88%	12.27%	12.61%	12.400%	12.650%	13.72%
FEB	13.27	13.06	13.06	12.21	12.39	12.238	12.675	14.54
MAR	13.43	13.26	13.28	11.92	12.19	12.860	13.070	14.60
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.669	14.16
MAY	12.28	12.49	12.50	12.06	12.09	12.038	12.281	13.34
JUN	n.a.	n.a.	n.a.	11.75	11.76	11.125	11.600	13.38

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[5]	FNMA[5]	FHLMC[5]	SELECTED SECURITIES A-Rated[6] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
JAN	12.35%	—	—	12.78%	11.38%	8.00%	8.03%
FEB	12.42	—	—	12.76	11.51	8.39	8.54
MAR	12.77	—	—	13.17	11.86	8.90	8.90
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	11.89	—	—	12.25	10.85	7.65	7.83
JUN	11.20	11.20	11.23	11.62	10.16	7.09	7.35

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
JAN	23	97	—	—
FEB	51	91	—	—
MAR	26	91	—	—
APR	22	101	—	—
MAY	3	104	—	—
JUN	n.a.	104	104	107

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing Construction only.

[5] Securities for 30 day delivery.

[6] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-[3] res.	SEASONALLY ADJUSTED Total[2]	SEASONALLY ADJUSTED 1-4 Units	SEASONALLY ADJUSTED 5+ Units	SEASONALLY ADJUSTED Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH To Borrowers Total	To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors Total	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.	OUTSTANDING COMMITMENTS END OF MONTH To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY

YEAR AND MONTH	Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4]			SERVICING VOLUME[1]				NOTES PAYABLE[1] (End of Month Balances)			
	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non.[3] res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	96	88	385,270	321,620	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH					END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

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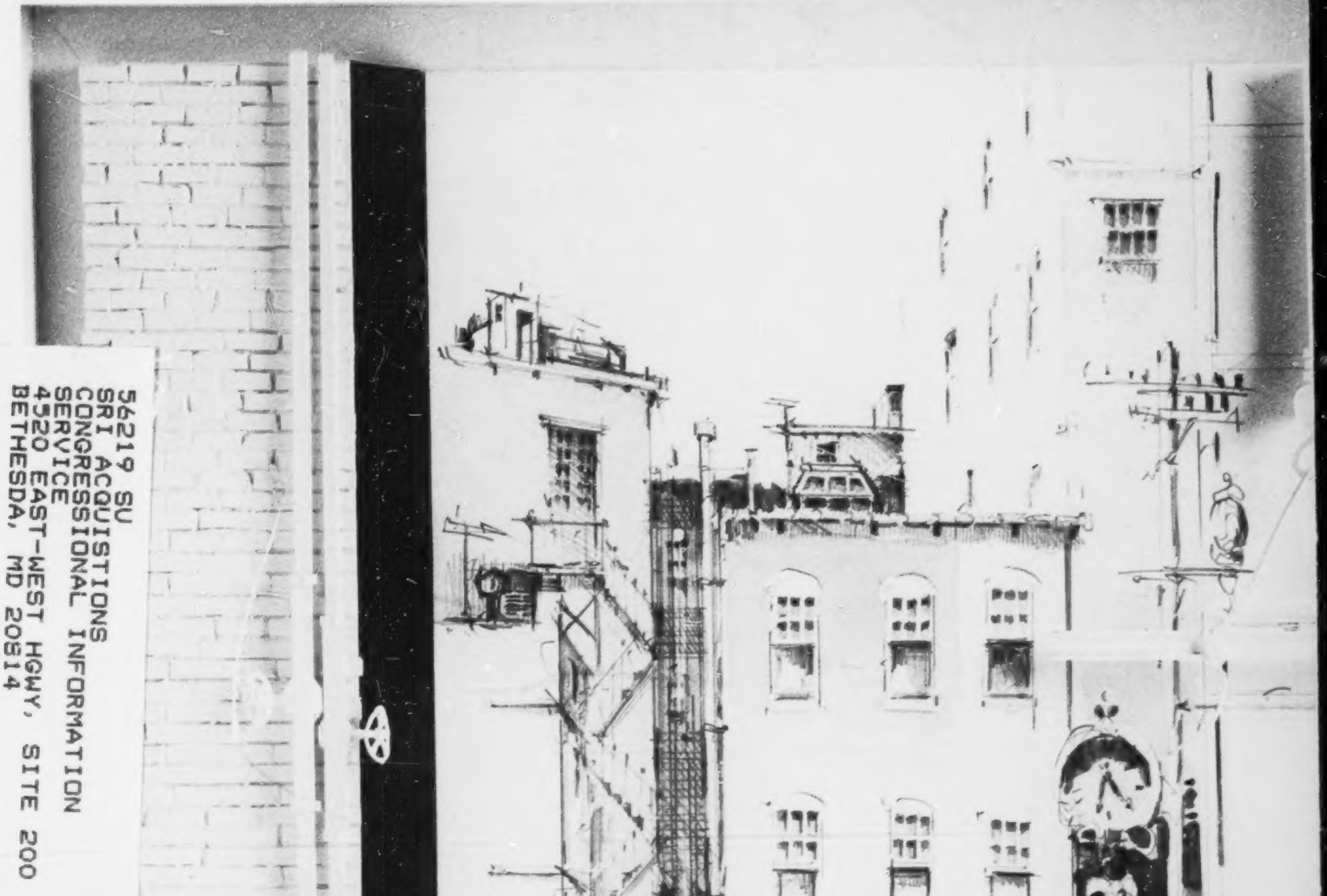
MORTGAGE BANKING

SEPTEMBER 1985

The Magazine of Real Estate Finance



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ARTICLES

PAGE 9
REAL ESTATE FINANCE THREE PERSPECTIVES
Mortgage Banking talks to three real estate finance industry leaders about their views on changing times and emerging trends.

PAGE 24
THE PROLIFERATION OF MORTGAGE-BACKED SECURITIES
Dr. Joseph Hu
This author predicts that both the volume and the variety of mortgage securities will further proliferate. Growth will depend on the demand for housing.

PAGE 48
FANNIE MAE'S MORTGAGE SOFTWARE UNDER WEIGH
Jeffrey A. Lebowitz
Fannie Mae undertook a technology assessment of lender needs and of the suppliers of mortgage software and recognized it could play an important role in enhancing the efficiency of mortgage operations.

PAGE 58
PRIVATE CONDUITS CARVE A NICHE IN THE MARKET
Deborah Whiteside
In a few short years, the private conduits have multiplied, differentiated and specialized and it is predicted they are here to stay. An overview of the different conduits is presented in this article.

PAGE 66
BRINGING EVERYONE ABOARD
Sandy Kalenik
Participative management involves communications and personal responsibility. A well-trained team backed by innovative leadership can help create future success.

PAGE 77
OPTIONS: GNMA VS. BOND FUTURES
Laurie Goodman
Options on Treasury bond futures can be a viable hedging alternative for mortgage originators. Citicorp has developed a methodology that allows an easy comparison between options on bond futures and options on GNMAs.

PAGE 90
ALASKA: OUT OF THE REAL ESTATE ICE AGE
Lucille Stietz
Less than 1 percent of Alaska has been developed. But it is not all wilderness. Alaska is people and people have housing needs that have to be met and such housing requires financing.

PAGE 101
AUTOMATED LOAN ORIGINATION "THIS BETTER WORK!"
Vic Lanzillotti
The success or failure of automated loan origination is often determined by the time a contract is signed. Several key issues are explored that can help a company evaluate different automated systems.

PAGE 114
USING INFORMATION AS A RESOURCE
John R. Fall
The approach presented in this article analyzes information needs from the management view of a business to be used to develop an information architecture.

PAGE 125
THE APPRAISER: A DIFFERENT PERSPECTIVE
William L. Pittenger, MAI, SREA
Appraising is not an exact science. An appraisal by definition is a supportable defensible estimate of value. It is a combination of science and art used to form an opinion of value.

INTERNAL MANAGEMENT

PAGE 132
TALENT HUNT: HARD WORK OR GOOD LUCK?
Gerard Sans
How do you go about locating the right person you are looking for a particular position? The process should involve some real soul-searching. This article examines various aspects of recruiting.

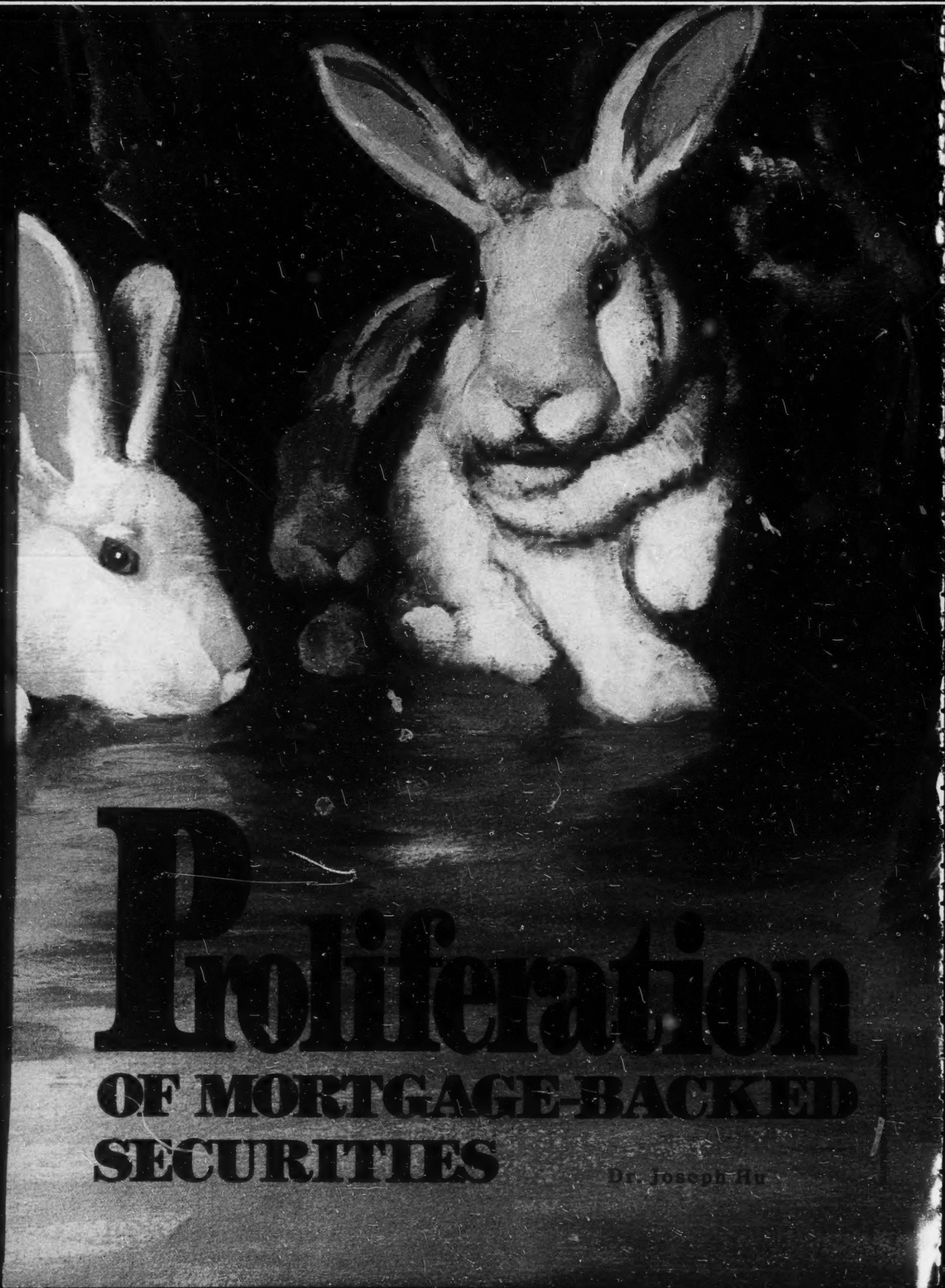
PAGE 145
THE EXECUTIVE INTERVIEW: IT'S NOT THAT SIMPLE
Ken Richardson
In the selection process, the interview is typically the most important tool utilized. Yet few managers have ever received any guidance in how to interview effectively.

PAGE 159
COUNTERATTACK AGAINST THE BANKRUPTCY AMBUSH
Michael S. Polk
Implementation of aggressive and effective procedures to minimize economic losses resulting from bankruptcies is no longer simply desired, it is a necessity for today's lenders and servicers.

PAGE 163
THE LAST WORD (COMMERCIAL PREPAYMENT FEES' NEW LEGAL FRONTIER)
Barrett Sanders
The commercial lending industry's efforts to hedge its mortgage rates by automatic prepayment premiums are just beginning and to date have met a cold shoulder at the courthouse door.

DEPARTMENTS

LETTERS 167
PEOPLE 169
BOOKS 180
SECONDARY MORTGAGE MARKETS 183
MORTGAGE MARKET TRENDS 185
AD INDEX 199



Proliferation OF MORTGAGE-BACKED SECURITIES

Dr. Joseph Hu

Over the past several years, the pooling of residential mortgages for the issuance of mortgage-backed securities has expanded and proliferated impressively. Although mortgage pass-throughs retained the lion's share of the mortgage-backed securities issued during this period, a variety of mortgage-backed bonds come to market in a significant volume. The distinction between mortgage pass-throughs and mortgage-backed bonds is that the former is issued as a sale of assets whereas the latter is a debt financing.

While the majority of recently issued pass-throughs continued to be pooled by the plain vanilla [illegible] mortgages, the share of these securities backed by adjustable rate (ARMs) and 15-year mortgages has expanded. On the debt side, the variety of financing collateralized by mortgages proliferated far beyond the traditional version of overly collateralized mortgage-backed bonds. The newly issued financings now include single-maturity mortgage pay-through bonds, multiple-maturity collateralized mortgage obligations (CMOs) and collateralized commercial paper. Financial institutions have also allocated mortgages to their finance subsidiaries to form an asset base for the issuance of adjustable rate or money market preferred stock. In addition to single family mortgages, the collateral now includes multifamily mortgages as well.

Mortgage swap programs at agencies

Mortgage pass-throughs were first issued in early 1970 under a GNMA (Government National Mortgage Association) program whereby mortgage lenders pool their newly originated mortgages and issue pass-through certificates guaranteed by GNMA. These mortgages are either insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA). The GNMA guarantee assures investors that monthly payments generated from the mortgages in the pool are "passed" on to them "through" issuers on a timely basis. The guarantee is backed by the full faith and credit of the U.S. government. In the following year, FHLMC also initiated a similar mortgage security program where FHLMC issues and guarantees its pass-throughs called participation certificates (PCs). With a rare exception, FHLMC PCs are pooled by conventional mortgages (insured by private mortgage insurance companies). In 1977, private entities also began to pool and issue conventional mortgage pass-throughs, although the amount had been quite small. It was not until late 1981 when FNMA, which has been a secondary market portfolio investor all along, initiated a program to issue its guaranteed mortgage-backed securities (FNMA MBSs).[1]

FIGURE 1A

Annual Issuance of GNMAs, FNMAs, FHLMC PCs
1970-1985

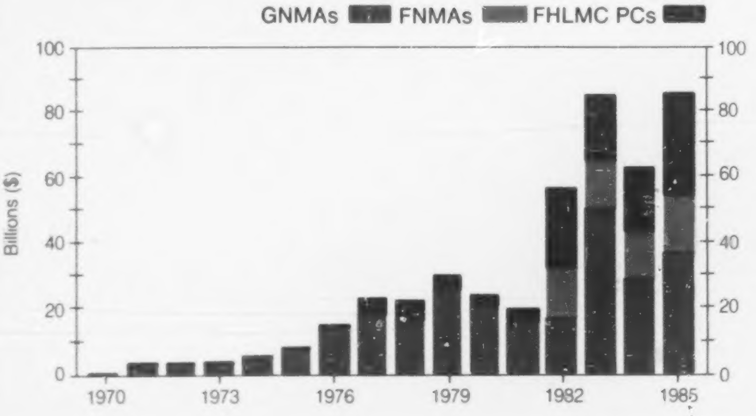


Table 1A

Issuance

	GNMAs ($ billions)	FNMAs ($ billions)	FHLMC PCs ($ billions)
1970	0.5	0	0
71	2.7	0	0.07
72	2.7	0	0.5
73	3.0	0	0.3
74	4.6	0	0.05
75	7.4	0	0.5
76	13.8	0	1.0
77	17.4	0	4.1
78	15.4	0	5.7
79	24.9	0	3.8
1980	20.6	0	2.5
81	14.3	0.7	3.5
82	16.0	14.0	24.2
83	50.5	13.3	19.5
84	27.9	13.5	18.7
85*	36.4	16.2	30.9

*1985 figures annualized based on first six months
Source: GNMA, FNMA and FHLMC

During the 11 years prior to 1982, pass-throughs have been issued mainly in the form of GNMAs and their annual issuance volume rarely exceeded $20 billion. The growth of mortgage pass-throughs, however, exploded in 1982 under FHLMC's Guarantor program and FNMA's newly commenced mortgage-backed security program. Both programs were initially designed to assist thrift institutions (savings and loan associations and savings banks) to restructure and improve the liquidity and marketability of their mortgage portfolios. Under these programs, the two agencies purchase seasoned mortgage loans held by thrifts from the thrifts and simultaneously sell back to the thrifts, agency guaranteed pass-throughs pooled by the same mortgages in the transactions. As a result of this swap, the thrifts would have improved the liquidity and marketability of their mortgage portfolios.

Both programs quickly proved successful. Because they primarily serve thrifts, competition unavoidably emerged for both agencies to make their respective programs more attractive. This competition resulted in many program revisions at the two agencies. For instance, seasoned FHA/VA loans were later included in both programs. While both programs were initially designed to securitize seasoned mortgages, they have increasingly included newly originated mortgages. In fact, newly originated loans have sometimes approached one half of the securities issued under swap programs. In addition, the fee structure, the length of time for commitment periods and options for recourse and delivery have all been revised to give participants convenience and flexibility in securitizing their new and seasoned mortgages.

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The most recent and perhaps the most important expansion of mortgage securities programs at both FHLMC and FNMA has been the adoption of the book entry system. The book entry system computerizes the handling of registration, trading, transfer, settlement and monthly payments of mortgage pass-through securities. Effective the beginning of this year, newly issued FHLMC PCs were offered in a book entry form. The Federal Reserve Bank of New York (FRBNY) became the register, transfer and paying agent for newly issued FHLMC PCs. In May, FNMA announced a similar program, changing its newly issued FNMA MBSs from definitive to book entry form. Recently, GNMA has also announced that it is moving to a book entry system, but has endorsed the private MBS Clearing Corporation as its depository.

Book entry allows rapid, accurate and professional handling of mortgage securities transactions. Presently, book entry securities have to be maintained through depository institutions that have book entry accounts at the FRBNY. Institutions eligible to hold such accounts are those in the Second Federal Reserve District. Investors of book entry securities, therefore, have to have their securities either held directly at eligible institutions that have a book entry account or at their local depository institutions that have a correspondent relationship with the eligible institutions.

While book entry is adopted initially for newly issued securities, both FHLMC and FNMA are in the process of converting their existing mortgage pass-throughs to the new system.

Huge issuance of pass-throughs

Ignited by the mortgage swap programs, issuance of mortgage pass-throughs exploded in 1982. As shown in Figure 1, annual issuance of FHLMC PCs surged to $24.2 billion in 1982, more than six times as large as its previous year. In the following two years, FHLMC PC issuance proceeded at a pace nearly $20 billion annually. So far this year, new issuance of FHLMC PCs has continued at such a pace. In a historical perspective, the total cumulative FHLMC PC issuance between 1970 and 1981 was only slightly over $22 billion.

FNMA's record was equally impressive. During a brief period after its late 1981 debut, FNMA securitized $700 million mortgages. In 1982, however, issuance of FNMA pass-throughs soared to $14 billion. Again, during the following two and a half years, FNMA has maintained its issuance volume at approximately $14 billion per year.

In addition to the swap programs, which basically securitize both newly originated and seasoned conventional mortgages, GNMA played a vital role in securitizing newly originated FHA/VA mortgages. In fact, as the plunging interest rates in 1983 unleashed the pent-up housing demand, mortgage originations in that year more than doubled those of the previous year. Consequently, annual issuance of GNMAs rocketed to $50 billion.

Several factors contributed to the huge issuance of GNMA: First, FHA/VA financings are usually cheaper than conventional mortgages thus enabling the bulging number of young households to rely on such financings to purchase their first homes. Second, merchant home builders have recently begun to access the capital markets directly through "builder bonds" to finance their prospective homebuyers. These bonds are mostly collateralized by GNMAs. Third, FNMA, traditionally a major purchaser of FHA/VA mortgages (average annual purchases in the 1970s: $6 billion), had substan-

continued

FIGURE 1B

Annual Outstanding Balance of GNMAs, FNMAs, FHLMC PCs
1970-1985

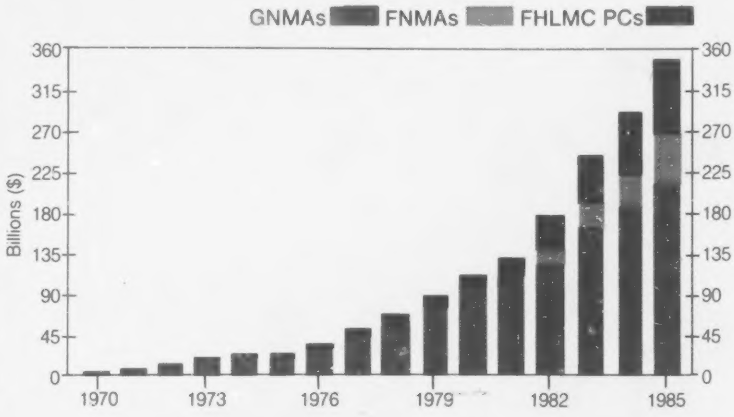


Table 1B

Outstandings

	GNMAs ($ billions)	FNMAs ($ billions)	FHLMC PCs ($ billions)
1970	0.4	0	0
71	3.0	0	.1
72	5.3	0	.4
73	8.0	0	.8
74	12.1	0	.8
75	18.0	0	1.1
76	28.0	0	1.9
77	42.0	0	5.4
78	55.0	0	10.2
79	75.8	0	12.9
1980	93.9	0	14.8
81	105.8	0.7	17.9
82	118.9	14.5	41.1
83	159.8	25.1	56.4
84	180.0	36.2	69.5
85*	205.0	49.0	97.0

*1985 figures annualized based on first six months

Source: GNMA, FNMA and FHLMC.

FIGURE 2A

Bond Equivalent Cash Flow Yields and Yield Spreads: GNMA 12.5% Vs. 10-Year Treasury

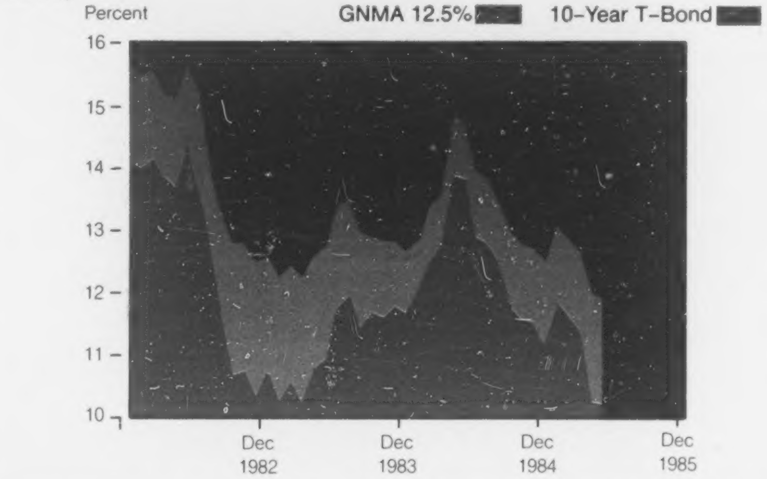


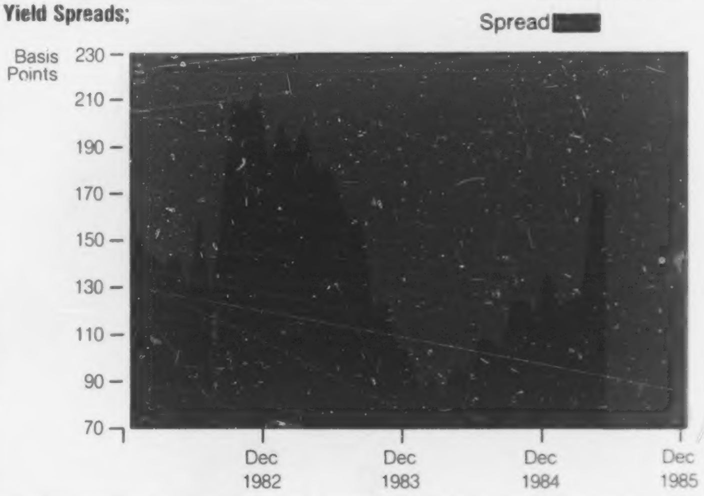
TABLE 2 A

GNMA Yields; 12.5% Securities*					Yield Spreads; 12.5% vs. 10-Year Treasuries* (basis points)				
	1982	1983	1984	1985		1982	1983	1984	1985
J	15.81	12.61	12.68	12.53	J	167	181	101	136
F	15.50	12.27	12.87	13.11	F	147	200	83	120
M	15.61	12.48	13.44	12.87	M	143	186	91	122
A	15.25	12.26	13.62	12.67	A	138	199	80	126
M	15.15	12.59	14.89	12.01	M	144	178	98	173
J	15.70	12.77	14.75	11.93	J	126	181	91	168
J	15.28	13.44	13.98		J	160	168	107	
A	14.03	13.53	13.85		A	122	155	106	
S	13.30	13.02	13.49		S	157	158	102	
O	12.81	12.92	13.02		O	210	118	123	
N	12.83	12.87	12.81		N	204	124	123	
D	12.52	12.86	12.73		D	216	104	118	

*Bond Equivalent, Cash Flow Yields, End of Month   Source: E.F. Hutton & Company, Inc.

FIGURE 2B

Yield Spreads;



tially cut back their investments in these mortgages. In 1983, it purchased less than $150 million FHA/VA mortgages. As a result of FNMA's withdrawal, virtually all newly originated FHA/VA mortgages had been pooled for GNMAs. Finally, the sharp decline in interest rates in 1983 created a surge of refinancings. Many homeowners who purchased their homes in the 1980-82 period refinanced their high rate mortgages with FHA/VA mortgages.

After climbing to a record volume in 1983, however, GNMA issuance almost reduced by half in 1984. The very nature of the GNMA program contributed partially to this sharp decline. Unlike mortgage swaps at FHLMC and FNMA, GNMA only securitizes newly originated FHA/VA mortgages. Since late 1983, the primary mortgage market had been dominated by ARMs. The low initial rate of adjustable rate financings attracted many first-time homebuyers—the primary candidates for FHA/VA financings. Consequently, originations of FHA/VA mortgages and the subsequent issuance of GNMAs plummeted in 1984. Nevertheless, by historical standards, 1984's issuance was still the second highest on record. This year, as long-term mortgage rates have again declined substantially, monthly issuance of GNMAs have resumed to an annual rate of close to $40 billion.

Improved relative value

The huge supply of newly issued mortgage pass-throughs over the past three and a half years did not adversely affect their value in relation to Treasuries. In fact, during early 1982 and mid-1984, yield spreads between pass-throughs and 10-year Treasuries narrowed dramatically. Because GNMAs represent the benchmark value for all pass-throughs, their yield relationships to Treasuries reflect the general relative value of pass-throughs. As shown in Figure 2, the bond equivalent cash flow yield of GNMA 12½s in late 1982 was around 13 percent, which was 200 basis points above 10-year Treasuries. By mid-1984, bond equivalent yields on GNMA 12½s had risen to nearly 15 percent and the yield spreads collapsed to around 80 basis points. Although GNMA yields over Treasuries in the past several months have widened irregularly, they were still significantly below the highs of early 1982.

A number of reasons contributed to the swing of these yield spreads in recent years. On the narrowing side, it can first be attributed to the market rally of 1982. In a sharply declining interest rate environment, investors usually opt lesser quality investments for higher yields. Despite the fact that GNMAs are supported by the full faith and credit of the U.S. government, they were still perceived by investors to be of lesser quality than Treasuries, primarily due to the monthly payment feature and the prepayment risk. Additionally, beginning with late 1982 when money market deposit accounts (MMDAs) were created, thrift institutions had been virtually deregulated. This deregulation has greatly enhanced the thrifts' ability to attract savings. With significant inflows of savings, thrifts were able to take down a large portion of the newly issued GNMAs, thus suppressing yield spreads between GNMAs and Treasuries. Also, because of the rising popularity of ARMs, GNMA issuance plummeted in 1984. This sharp decline of GNMAs happened to occur at a time when they are in high demand as collateral for issuing debt obligations. Most of these obligations were issued as a means to arbitraging yield differentials between GNMAs and Treasuries. Reduced supply coupled with increased demand resulted in a further narrowing in yield spreads.

As yield spreads collapsed to historically low levels in mid-1984, GNMAs became extremely expensive as collateral for arbitrage. Consequently, demand for GNMAs as a tool for arbitrage vanished, causing yield spreads to widen. In addition, as the Treasury market rallied in mid-1984 and again in the past few months, mortgage securities had lagged in the rally, further aggravating the levels of yield spreads. One factor that enabled Treasuries to turn in a stellar performance in recent market rallies was the participation of foreign investors. However, because the repeal of a 30 percent withholding tax on interest received by foreign investors applies only to Treasuries and corporates, GNMAs were deprived of the benefit of foreign investment.

> **"Both the volume and the variety of mortgage securities will further proliferate. The fundamental underpinning for the future growth in mortgage securities is the potentially strong demographic demand for housing."**

Yield spreads continued to widen in early 1985 as the well publicized collapse of a few securities dealers disrupted the repo (repurchase or reverse repurchase) market which uses mortgage pass-throughs as collateral. For a brief period, there was a confusion in the market as to the true owner of the involved pass-throughs. As a result, secondary market trading was interrupted as securities dealers had become reluctant to position them. In the meantime, financial difficulties of a number of thrifts, both federally and state chartered, have made the thrift industry a marginal net purchaser or even periodically a net seller of mortgage securities. Without support of the thrifts, mortgage securities' relative value suffered a further setback.

In view of the factors which contributed to the wide swing of yield spreads, it still appears that mortgage securities had improved their values in relation to Treasuries. Yield spreads narrowed primarily due to fundamental changes in the mortgage securities market. They widened late for mostly technical reasons. All things considered, mortgage pass-throughs have performed well in recent years and their relative value to Treasuries has shown remarkable improvement.

The popularity of ARMs

Adjustable rate mortgages have been in existence since the late 1970s. Then, state-chartered thrifts in California were allowed to originate mortgages with a three- to five-year "renegotiable" or "rollover" interest rate. Later on in April 1981, FHLBB (Federal Home Loan Bank Board) issued a regulation allowing federally chartered thrifts to originate ARMs. However, prior to 1982, ARMs only had a limited success in the mortgage market. The relatively low profitability and uncertainty in monthly payments caused reluctance of both lenders and borrowers to accept ARMs. Although ARMs were gaining acceptance in the 1981-82 period when long-term mortgage rates were at historically high levels, this progress was interrupted by the tumbling long-term rates in the summer of 1982. It was not until late 1983, with the backup of interest rates and the aggressive marketing on the part of thrift institutions, that ARMs established a foothold in the mortgage market.

Thrifts began aggressively marketing ARMs in late 1983 when almost all of their deposit accounts were deregulated. This deregulatory action has greatly enhanced thrifts' ability to attract savings and other liabilities, particularly funds in short maturities. Consequently, the maturity structure of thrifts' liabilities has been significantly shortened. This shortening of maturity structure, in turn, pressured thrifts to acquire short-maturity or interest sensitive assets.

While ARMs generally have a 30-year maturity, their interest rates are adjustable periodically and thus are ideal interest sensitive investments for thrifts. As a result of the thrifts' aggressive marketing, originations of ARMs flourished in late 1983 and have thus far remained popular in the mortgage market (See Figure 3). Annual originations of ARMs in 1985 represented 37 percent of all conventional loan originations. In 1984, this share exploded to 61 percent, although it had declined moderately in recent months to a little over 50 percent. For the past two and a half years, total ARM originations are estimated to be amounted to nearly $200 billion.[2]

In the early stage of their surging popularity, numerous types of ARMs were created. In addition to the substantial difference in the initial rate among ARMs, there were also wide variations in such features as index of adjustment, term of adjustment, margin, interest rate or payment adjustment caps and allowance of negative amortization. With these variations, the securitization of ARMs has been extremely difficult. However, as lenders became more experienced in originating ARMs, significant progress has been made to standardize ARMs. Recently originated ARMs have been mostly one-year adjustables, indexed by the one-year constant maturity Treasuries with a 200-250 basis point margin and two, five-year annual/lifetime caps. For those ARMs with annual payment caps, negative amortization is allowed but limited to 25 percent of the original loan balance.

In addition to standardization, progress has also been made in developing a pricing mechanism of ARMs for secondary market trading. With the establishment of the three necessary ingredients—volume, standardization and generally accepted pricing mechanism—a large issuance of ARM securities can be expected in the near future. In fact, close to 4 billion of ARM securities have been issued by FNMA in the past two years. FHLMC also has initiated programs actively pursuing the securitization of ARMs. Although GNMA has implemented its ARM program in July 1984, only $25 million of GNMA ARMs were issued. The lack of success of the GNMA ARM program can probably be attributed to its restrictive 1 percentage point annual interest rate cap. Reportedly, Congress is now considering to widen the cap to a more popular 2 percentage point.

The growth of 15-year mortgages

Mortgage pass-throughs with a maximum maturity of 15 years have gained prominence in recent years. Prior to late 1982, GNMA mobile homes were the only securities traded in the secondary market with a total issuance of less than $3 billion. In a brief period since late 1982, more than $6 billion of 15-year single family pass-throughs have been issued.

From a borrower's point of view, the most attractive element of a 15-year mortgage is its low interest costs. Pricing off a yield curve, a 15-year mortgage usually carries a mortgage rate somewhat lower than does a 30-

continued

FIGURE 3

Quarterly Conventional Mortgage Loan Originations and Market Share of Adjustable Rate Mortgages, 1982-1985

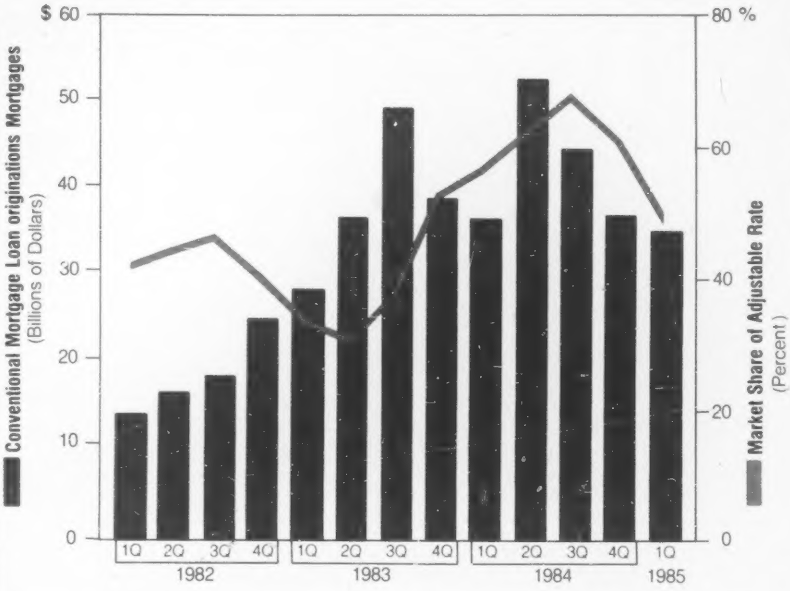


Table 3

			Originations ($ Billions)	ARMS as % Conventional Mortgage Originations
	82	1	14.3	40.67%
		2	17.4	42.00
		3	18.7	44.33
		4	24.7	37.33
	83	1	27.8	31.33
		2	39.4	29.67
		3	47.9	34.33
		4	39.2	53.67
	84	1	37.1	58.33
		2	53.2	62.67
		3	44.8	66.67
		4	38.7	57.33
E	85	1	35.00	48.33

Source: HUD and FHLBB
E: EF Hutton Estimate

FIGURE 4

Comparison of the Monthly Payment for the Initial Year of a 15-Year and a 30-Year Mortgage ($1,000 Principal)

	10%		12%		20%	
	15 Year	30 Year	15 Year	30 Year	15 Year	30 Year
Monthly Payment ($)	10.75	8.78	12.00	10.29	17.56	16.71
Interest	8.23	8.32	9.89	9.98	16.58	16.70
Principal	2.52	0.46	2.11	0.31	0.98	0.01
Total Interest Payment ($)	934.00	2159.00	1160.00	2703.00	2161.00	5018.00
Weighted Avg. Life (Yrs)	9.30	21.60	9.70	22.50	10.80	25.10

year mortgage. Given the same mortgage rate but because of a shorter amortization period, the interest cost of a 15-year mortgage amounts to only about 40 percent of a 30-year mortgage (See Figure 4). Moreover, in a disinflationary environment, the incentive is substantially reduced to borrow with a long maturity and to pay back in cheap dollars. The disadvantage of a 15-year mortgage, however, is that it entails a monthly payment significantly higher than a 30-year mortgage. Nevertheless, for those who can qualify, the advantages of 15-year mortgages have resulted in their increased originations and the subsequent new issuance of their pass-throughs. Moreover, homebuilders have also been responsible for the rapid growth of 15-year mortgages. To facilitate sales, homebuilders often resort to interest subsidies to qualify their prospective homebuyers. To their delight, they have found that it is relatively cheaper to provide interest subsidies, called builder buydowns, through a 15-year mortgage rather than a 30-year mortgage (See Figure 5).

From an investor's perspective, 15-year pass-throughs are a welcomed product in the mortgage securities market. In the midst of heightened volatility in interest rates, investors have sought to reduce their exposure to interest rate risk by shortening the maturity of their investments. Additionally, 15-year pass-throughs created investment opportunities for certain investors whose internally or externally imposed restrictions have prevented them from participating in liquid, safe and high-yielding mortgage pass-throughs. The acceptance of 15-year pass-throughs among investors can be readily demonstrated by the narrowing yield spreads between 15-year pass-throughs and Treasuries. For example, when first issued in late 1982, yield spreads between 15-year GNMA 10½s on a bond equivalent basis and seven-year Treasuries exceeded 100 basis points. These spreads have narrowed substantially within a year to 50 basis points and have been around that level or slightly lower thereafter (See Figure 6).

The variety of mortgage-backed debt financings

Debt financings collateralized by residential mortgages dates back to

FIGURE 5

Cost Comparison of Buydowns for a 15-Year & 30-Year Mortgage (12% Mortgage Rate for $1,000 Original Principal)

	Monthly Payment Absorbed by Builders			
	Temporary (3-2-1)[a]		Permanent	
	15-Yr	30-Yr	15-Yr	30-Yr
1st Year	$1.86	$2.24	$0.64	$0.76
2nd Year	1.20	1.49	0.64	0.76
3rd Year	0.58	0.75	0.64	0.76
4th Year	—	—	0.64	0.76
Total Buydown Cost	$43.68	$53.76	$115.2	$273.6
Present Value[b]	$38.06	$46.74	$53.32	$73.89
Present Value to Prepayment[c]	—	—	$36.26	$57.86

[a] The temporary buydown assumes the builder subsidizes 3, 2, and 1 percentage point of the mortgage rate for the first three years, the permanent buydown assumes the builder subsidizes 1 percentage point of the mortgage rate for the entire life of the mortgage

[b] Discount rate for computing present value is 12 percent

[c] A 15-year mortgage is assumed to be prepared at the end of the seventh year, a 30-year mortgage, the end of the 12th year

FIGURE 6

Bond Equivalent Cash Flow Yields and Yield Spreads; 15-Year GNMA 10.5% Vs. 7-Year Treasury

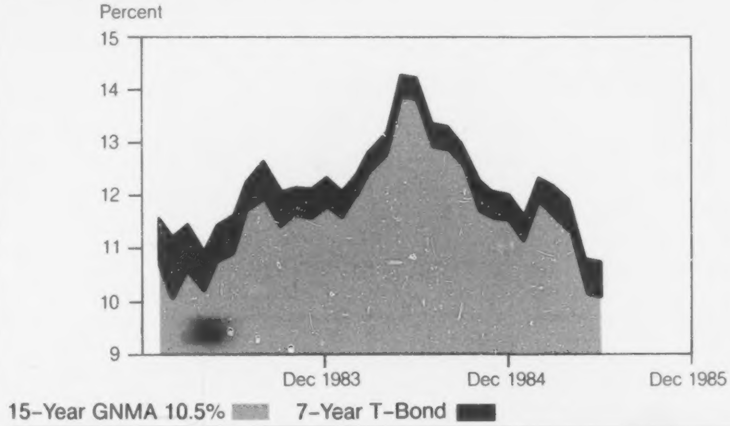


TABLE 6A

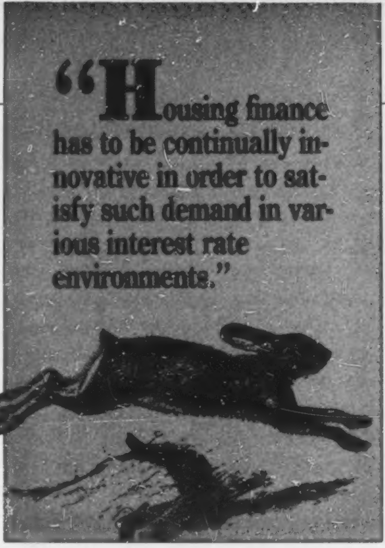
	GNMA Yields; 15-Year 10.5% Securities*				Yield Spreads; 10.5% vs. 7-Year* (basis points)		
	1983	1984	1985		1983	1984	1985
J	11.63	12.07	11.60	J	94	51	53
F	11.21	12.41	12.34	F	120	44	47
M	11.47	12.88	12.17	M	95	43	58
A	10.95	13.19	11.89	A	80	44	58
M	11.47	14.30	10.79	M	70	43	64
J	11.66	14.24	10.73	J	74	42	65
J	12.32	13.37		J	58	46	
A	12.64	13.30		A	70	45	
S	12.08	12.93		S	69	39	
O	12.15	12.31		O	53	61	
N	12.13	12.07		N	56	51	
D	12.35	12.01		D	58	49	

*Bond Equivalent, Cash Flow Yields, End of Month
Source: E.F. Hutton & Company, Inc.

1977 when FHLBB authorized thrift institutions insured by Federal Savings and Loan Insurance Corporation (FSLIC) to issue mortgage-backed bonds. Like governments or corporates, mortgage-backed bonds pay interest semiannually with a full payment of principal at maturity. One important distinction, however, is that unlike governments or corporates, the credit of a mortgage-backed bond is derived from overcollateralization of the mortgages pledged by the issuer. The market value of the collateral is valued periodically and maintained at 150 percent of the outstanding bonds.

The credit enhancement through overcollateralization enables the issuer to obtain the highest credit ratings for the bonds. This arrangement allows thrifts, regardless of their size, to issue bonds and liquify part of their portfolio in an environment where prevailing interest rates are higher than those of the underlying collateral. The proceeds from the bond issuance can then be invested in higher-yielding assets. In addition, by issuing mortgage-backed bonds whose maturities generally range between five to ten years, thrifts can lengthen the average maturity of their liabilities and reduce the maturity gap on their balance sheet.

Between 1977 and 1980, before interest rates began their unprecedented surge, mortgage-backed bonds were issued by many thrifts, amounting to nearly $4 billion. As interest rates escalated to historically high levels in the following two years, issuance of these bonds trickled. However, when interest rates subsided in 1983, debt financings collateralized by mortgages revived with various innovative forms. These innovative financings channeled a substantial amount of credit to the industry.



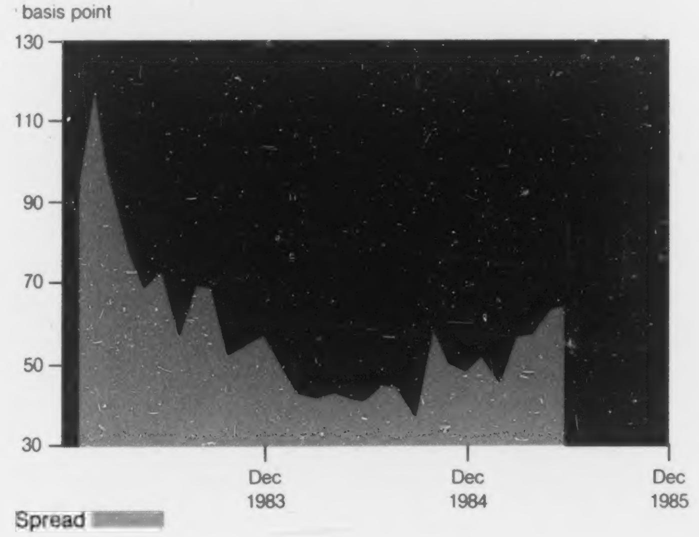
> "Housing finance has to be continually innovative in order to satisfy such demand in various interest rate environments."

Single maturity mortgage pay-through bonds

Mortgage pay-through bonds are also called "builder bonds" because their primary issuers are homebuilders. They were first issued in late 1981 when thrift institutions were disintermediated by the high levels of interest rates. Large builders confronted with a shortage of mortgage credit resorted to this type of mortgage-backed bonds to provide financing for homebuyers.

FIGURE 6B

Yield Spreads

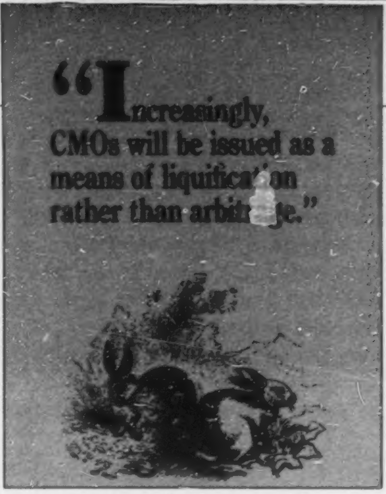


In essence, pay-through bonds are collateralized by a pool of GNMAs. To a certain extent, recent issues have also used FNMAs, FHLMC PCs and conventional loans as collateral. Because of the quality of the collateral, the bonds have been rated AAA by the S&P's (Standard and Poor's) or Moody's. Interest payments as reflected by the coupon of the bonds are paid monthly to the bond holders. The excess cash flow after payments of interest on the bonds are deposited by the trustee to the redemption fund. To the extent funds are available in the redemption fund, the issuer is obligated to redeem the bonds at par on request at any time from the bond holders. After these redemptions, if funds remain available, the issuer is obligated to make mandatory redemption so that on the aggregate the monthly payment generated from the collateral is equal to the total monthly payment to the bond holders. Often times the issuer, at its sole option, can also redeem all the bonds after a certain period of issuance.

Pay-through bonds differ from the traditional mortgage-backed bonds in that the former is a self-amortized instrument with an uncertain maturity whereas the latter is not self-amortized with a definite maturity. While pay-through bonds are, in essence, collateralized by GNMAs, mortgage-backed bonds are usually secured by conventional mortgages. Both are AAA-rated debt obligations of the issuer. However, the credit enhancement for pay-through bonds is essentially the cash flow generated from the collateral. For mortgage-backed bonds, it is the 150 percent overcollateralization.

From a homebuilder's point of view, one clear advantage of issuing pay-through bonds has been the "installment sale" tax treatment. Under this treatment, the current tax laws allow the builder—who is also the bond issuer providing the financing to the homebuyers—to allocate to future years the bulk of the current tax liabilities on gains from home sales. The allocation is proportionate to the amortization schedule of the bond collat-

continued



"Increasingly, CMOs will be issued as a means of liquification rather than arbitrage."

eral plus prepayments. In other words, for the year the homes are sold, the builder's tax burden on the gains is limited to the principal amortization of the financing plus prepayments. Because these amount to only a small portion of the total financing in early years, the builder can postpone a substantial amount of taxable gains to future years. Another advantage of pay-through bonds is that the size of the bond offering is usually small, averaging about $20 million. Because of this size, the bond financing can be easily executed without significant exposure to interest rate movement.

Pay-through bonds are offered primarily to individual investors. The minimum denomination of the bonds is $1,000 and their offering spreads on a bond equivalent basis generally range between approximately 20 to 50 basis points, over 10-year Treasuries. These features coupled with the monthly interest payment make the bonds attractive to individual investors. Institutional investors, however, rarely purchase pay-through bonds because their yields are substantially below other alternative investments. Also, pay-through bonds, as pass-throughs, lack call protection for investors in a declining interest rate environment. Furthermore, in such an environment, the bonds rarely trade over par due to the mandatory redemption requirements.

Multimaturity collateralized mortgage obligations

Collateralized mortgage obligations, first issued by FHLMC in June 1983, have grown to be a major force in the mortgage securities market. Conceptually, with the exception of multiple maturities, CMOs are not much different from pay-through bonds. The cash flow generated from the collateral is the sole source to support the credit and to pay the interest and principal of the obligation. The multiple maturity structure is utilized to instill some certainty into the cash flow of the obligation. Because of various social and demographic reasons, some mortgages are prepaid faster than others. Even given the same economic environment, mortgages carrying the same interest rate would have different prepayment experience. Capitalized on the variation of prepayments, a CMO is offered assuming a certain prepayment speed of the mortgage collateral. Based on this speed, several maturities of the obligation are offered. Investors of the shortest maturity will first receive the scheduled payment of interest and principal plus all the unscheduled prepayment up to a predetermined portion of the obligation. Until that portion of the obligation is completely paid off, investors of longer maturities will receive only the stated interest on the obligation. This structure provides investors, particularly those of longer maturities, with more certainty and therefore, controls a certain part of the prepayment risk. Because any unscheduled prepayments will first be received by the shortest maturity investors, they, in fact, absorb the prepayment risk for the longer maturity investors.

Since June 1983, close to $22 billion of CMOs have been issued (See Figure 7). While FHLMC pioneered CMOs with conventional whole loans as collateral, approximately 40 percent of

continued

FIGURE 7

Issuance of Collateralized Mortgage Obligations By Issuer, Type of Collateral, Maturity Class and Offering Yield Spread, June 1983 - June 1985

		Dollars (millions)	Percent of Total**	Number of Issues
Parent of Issuer				
FHLMC		$ 4,869	22.2%	7
Investment Bankers		7,377	33.6	22
Home Builders		4,459	20.3	33
Mortgage Bankers		1,678	7.6	9
Insurance Companies		1,522	6.9	2
Commercial Banks		500	2.3	1
S&Ls		1,547	7.0	7
	Total	21,950	100.0	81
Collateral				
GNMAs		$ 8,808	40.1%	38
Conventional Mtge Loans		6,231	28.4	11
FNMAs		350	1.6	2
FHLMC PCs		728	3.3	4
Mixed Collateral		5,833	26.6	26
	Total	21,950	100.0	81
Maturity Class				
Three		$ 2,804	12.8%	10
Four		16,411	74.8	63
Five		1,150	5.2	4
Six or More		1,585	7.2	4
	Total	21,950	100.0	81

CMO Offering Yield Spread over Comparabie-Maturity Treasuries (in basis points)

Average Life of Maturity Class (years)	Comparable-Maturity Treasuries (years)	Spread over Comparable-Maturity Treasuries (basis points)			
		Avg.	High	Low	Standard Deviation
less than 3.5	2	53	92	15	14
3.6 - 6.0	5	64	104	25	14
6.1 - 8.5	7	73	121	37	17
8.6 - 15.0	10	88	135	14	18
more than 15.0	20	110	135	75	17

**Components may not add to total due to rounding.

Source: RMJ Securities.

"As the mortgage securitizing process continues to mature, more multifamily and commercial mortgages will be pooled for pass-throughs."

the market used GNMAs exclusively as collateral. Whole loans constitute about 30 percent of the CMO collateral with the rest being either FHLMC PCs, FNMAs or a combination of all of the above. With the exception of FHLMC, CMOs have been issued through wholly owned finance subsidiaries. The parents of these subsidiaries have been investment bankers, homebuilders, mortgage bankers, insurance companies, thrifts and commercial bankers.

The structure of CMOs appears to have been standardized with four maturity classes. Under different prepayment assumptions, the weighted average lives of these maturity classes range from a little over one year to nearly 20 years. They were offered at a yield spread over the yield of a comparable maturity Treasury note or bond. The average offering spreads for these maturities were in the neighborhood of 50, 60, 70, 90 and 120 basis points over two-, five- or seven-, 10- and 20-year Treasuries.

During the early stage of development, CMOs have been issued basically to arbitrage the yield differentials between pass-throughs and Treasuries. Investment bankers, mortgage bankers or builders actually purchased pass-throughs in the open market (mainly GNMAs) as collateral and then issued CMOs. By pricing the various maturity classes to a specific section of the positively sloped Treasury yield curve, CMOs were sold at a significantly narrower spread to various shorter-maturity Treasuries than three between pass-throughs and 10-year Treasuries. This arbitrage profit was one important factor responsible for the fast growth of the CMO market.

Despite the large issuance volume, a full-scale secondary market trading of CMOs has yet developed. One of the crucial elements in structuring, pricing and trading CMOs has been the prepayment assumption for the collateral. Because all the existing CMOs were structured under various prepayment assumptions, it handicapped the development of an efficient secondary market of CMOs. In mid-June, the Public Securities Association announced a formula to standardize the prepayment assumption for CMOs.

This formula, designed to provide a consistent basis for trading CMOs, uses a 0.2 percent prepayment rate for the first month of the mortgage collateral. The prepayment rate will then increase by 2/10 of a percentage point until the 30th month. Beginning with the 31st month and thereafter, the monthly prepayment rate will remain constant at an annual rate of 6 percent. Effective July 1, this formula, dubbed "PSA experience," became mandatory for all future issuance of CMOs.

Collateralized commercial paper

Commercial paper is a short-term unsecured promissory note issued on a discount basis by mostly corporations with the highest credit ratings. As a practical matter, commercial paper is generally issued with a 30-day maturity, although the maximum maturity can be as long as 270 days. Issuers of commercial paper usually fund the maturing paper by rolling it over—selling new paper with a similar maturity and use the proceeds to pay off the maturing one. Because of the short maturity range, and the fact that the proceeds are not reinvested in assets with longer than a five-year maturity, commercial paper is exempted from registration with the Securities Exchange Commission. In the past several years, commercial paper has experienced a tremendous rate of growth with current outstanding balance exceeding $250 billion.

For thrifts, commercial paper has not been a major source of financing, although in January 1979, FHLBB has already issued regulations allowing FSLIC-insured savings and loan associations to issue commercial paper. In March 1980, Federal Deposit Insurance Corporation gave the same permission to insured mutual savings banks. These regulatory actions, however, motivated only few thrifts to rely on commercial paper as a funding source. By 1981, outstanding thrift commercial paper amounted to only a little more than $300 million. In fact, during the next two years, the outstanding commercial paper balance trickled to less than $100 million. One of the reasons for lackluster issuance of thrift commercial paper is obviously the credit rating of the potential issuers. Recent utilization of mortgages or mortgage pass-throughs as collateral for borrowings, however, has provided the needed credit enhancement for the issuer and it may vitalize thrift commercial paper.

There are several requirements in order for collateralized commercial paper to be rated A-1+ by S&P and P-1 by Moody's. First, the mortgage collateral that is pledged to a trustee has to be of high quality such as GNMAs, FNMAs, FHLMC PCs or Treasuries. Second, there has to be a level of overcollateralization, depending on the frequency of the collateral is marked to market. For a weekly market valuation, the level of overcollateralization is 110 percent for Treasuries, 125 percent for GNMAs and 135 percent for FNMAs and FHLMC PCs. For a monthly valuation, the ratios are slightly higher for mortgage pass-throughs: 133 percent for GNMAs and 140 percent for FNMAs and FHLMC PCs, respectively. Third, the issuer has to obtain a revolving credit agreement from a similarly rated commercial bank. The credit line has to cover at least the balance of the commercial paper maturing within any 14-day period. The purpose of the credit line is that, in the event of liquidating the collateral, it can be used to repay the maturing paper. As an alternative to the credit line support, some commercial paper has utilized surety bonds issued by insurance companies.

Commercial paper is a sizable and liquid market. For thrift institutions, it is possible to place collateralized commercial paper with a rate approximately 10 basis points over the H-15 commercial paper index published by

continued

the Federal Reserve System. Over the past year that rate has been almost consistently 150 basis points below the prime rate. Conceptually, thrifts can use commercial paper to fund their construction loans or to finance their secondary mortgage market operations such as warehousing newly originated mortgages. Because both construction loans and warehousing credit are priced substantially above the prime rate, commercial paper financing will prove to be extremely cost effective for thrifts.

Controlled adjustable rate or money market preferred stock

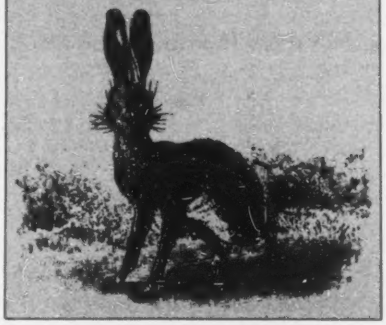
An additional area where mortgages have been used as assets to support financings is adjustable rate preferred stock. Controlled adjustable rate preferred stock (CARPS) has recently been issued by thrift institutions through their finance subsidiaries. Because the dividend paid on the preferred stock is not tax deductible, one critical consideration in issuing a CARPS is that the thrift has substantial net operating loss carry forwards.

Other important elements in structuring a CARPS include: First, the subsidiary's mortgage assets will not be consolidated in the event of insolvency of the parent. Second, as in the case of CMOs, at least 55 percent of the subsidiary's assets have to be either whole loans or whole pools of mortgage pass-throughs. Third, the dividend paid on the stock must be taxed as such and corporate investors may exclude 85 percent of the stock's dividends from their taxable income.

Fourth, depending on the type and the frequency of evaluation, the market value of the assets at the subsidiary is required to be valued between 130 percent and 170 percent of the outstanding preferred stock. This excess market value is required so that the stock may obtain the highest rating. Also, it is needed to ensure that the cash flow generated from the assets is sufficient to pay stock dividends.

Since its debut in February 1984, more than $1 billion of CARPS has been issued. The dividend rate is initially set at a margin of approximately 75 to 200 basis points below the triple benchmark—the highest of three-month Treasury bill rate, 10- or 20-year constant maturity Treasuries. The dividend rate then is reset every three months thereafter. There are usually collars for the rate adjustment—a ceiling of 15 percent and a floor of 7 percent. While there are optional and mandatory redemption features, the stock is generally nonredeemable for the first five years. If the 85 percent tax exclusion is eliminated, the stock must be either redeemed at par plus accrued dividend or the dividend rate must be raised to reflect the absence of the tax exclusion. Furthermore, if the market value of the assets falls below a specified level, either a portion of the preferred stock must be redeemed or the parent must inject additional assets to the subsidiary so that the ratio can be raised to the original level.

> **"The proliferation of mortgage securities in the past several years reflected the maturing process in the securitization of residential mortgages. This process will continue."**



Recently, however, money market preferred stock (MMPS) has become a more cost effective means of financing than CARPS. The key difference between the two is the dividend rate setting mechanism. Unlike the CARPS which is priced off the triple benchmark, the dividend rate on a MMPS is reset every 49 days through a "dutch auction" where all potential investors submit bids for the outstanding stock. The dividend rate bid that clears the market will become the new dividend rate for the next 49-day period.

Like mortgage-backed bonds, CARPS represents an additional alternative for thrifts to liquify and improve their lower-yielding mortgage portfolios. From the investor's point of view, CARPS is attractive because of its 85 percent tax exclusion. This feature allows thrifts to raise funds at an advantageous rate.

Implications for the future

The proliferation of mortgage securities in the past several years reflected the maturing process in the securitization of residential mortgages. This process will continue. Both the volume and the variety of mortgage securities will further proliferate. The fundamental underpinnings for the future growth in mortgage securities is the potentially strong demographic demand for housing. Housing finance has to be continually innovative in order to satisfy such demand in various interest rate environments.

For the balance of this decade, annual originations of one- to four-family

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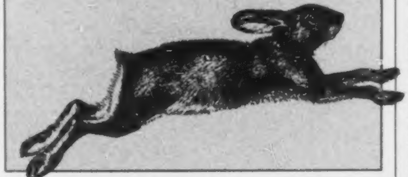
mortgages could well exceed the $200 billion mark established in the past two years. Depending on the level of interest rates, different types of mortgages will become the predominant housing finance instrument. They can be of fixed-rate or adjustable rate with either a 15- or 30-year maturity. In any event, an increasing portion of these mortgages will be securitized through swap programs at FNMA or FHLMC. Moreover, it can also be expected that conventional mortgages with loan amount exceeding the agency limitation will be securitized by private entities. Last year's enactment of the Secondary Mortgage Market Enhancement Act has greatly facilitated the private sector to participate in issuing and guaranteeing mortgage-backed securities.

As the mortgage securitizing process continues to mature, more multifamily and commercial mortgages will be pooled for pass-throughs. Moreover, the technique of pooling loans for pass-through securities does not have to be confined to mortgages. In fact, automobile loans and leased notes have already been pooled and sold to investors in a pass-through format. Further proliferation of pass-throughs is likely to include various types of loans with a scheduled cash flow pattern.

> **"With the establishment of the three necessary ingredients—volume, standardization and generally accepted pricing mechanism—a large issuance of ARM securities can be expected in the near future."**



Portfolio lenders such as thrifts, commercial banks and insurance companies will step up their efforts in portfolio restructuring. They will liquify and upgrade the earnings of their mortgage portfolios through various mortgage collateralized debt financings. Increasingly, CMOs will be issued as a means of liquification rather than arbitrage. In the event that the new tax laws repeal the installment sale tax treatment for builder bonds, builders are likely to continue issuing these bonds, although with much reduced profitability. Depending on the financing structure, builder bonds will continue to be offered in single and multimaturity.

Mortgage financings have recently become increasingly innovative. All participants in the mortgage market—borrowers, lenders and investors alike—have all developed the needed sophistication in understanding the innovative mortgages and mortgage-backed securities. In light of this development, it can be expected that the relative value of mortgage products will continue to improve. ☐

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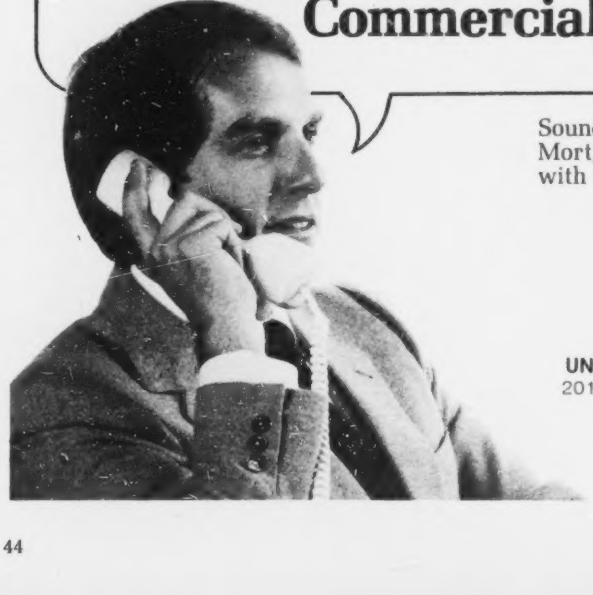
[1] Shortly after the commencement, the majority of GNMAs issued had been "fully modified" pass-throughs. Under this program, scheduled payments of principal and interest are to be paid to investors "whether or not" they are collected by the issuer/servicers. Prepayments and foreclosure proceeds are passed along to investors "as received." For a detailed description of GNMA, FNMA and FHLMC guaranteed pass-through programs, see Joseph Hu, "The Revolution in Securitizing Mortgage-Backed Securities," Summer 1984, *Real Estate Review*.

[2] For a detailed discussion of ARMs and their recent popularity in the mortgage market, see "Adjustable Rate Mortgages" and "Housing Finance in a Deregulated Environment" by Joseph Hu in *The Handbook of Mortgage-Backed Securities*. Edited by Frank Fabozzi, Probus Publishing, Chicago, Illinois, 1985.



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MORTGAGE MARKET TRENDS

The overall health of the economy has once again become a heated topic of conversation among market prognosticators. The financial markets are now increasingly sensitive to economic signals that tend to demonstrate the potential for fundamental changes in the long-term course of interest rates. A substantial portion of this intensified focus on the factors underlying GNP growth relates to the Federal Reserve Board (Fed). Throughout the year, the Fed has apparently been emphasizing the behavior of the economy in setting monetary policy rather than overall money growth measures and the market has been following suit. Of course, technical factors such as seasonal money demands, also continue to play an important role in short-term market perceptions. A good example was the well-received record $22 billion Treasury refunding that occurred the first week in August. The ever present technical considerations notwithstanding, the reactions of the financial market's response to expected Fed actions relating to changes in GNP growth, rather than money growth per se, will form the foundation for future movements in interest rate levels.

The Commerce Department projection of 3.1 percent for second quarter GNP growth incorporated in their "flash estimate," was subsequently revised down to 1.7 percent, close to our expectation of around 2 percent. Because the "flash" is computed using incomplete data, this downward revision of almost 50 percent is not altogether surprising. The revised figure was essentially the result of the two components that have been acting as a drag on the economy since mid-1984, net exports and inventory investment. Alternatively, the demand component as measured by final sales showed a healthy 5 percent annual increase from first quarter levels and could set the stage for moderately rising business inventory investment in the coming months.

The wild card continues to be the trade sector and the degree to which foreign goods overshadow domestic investment. If the foreign exchange value of the dollar can maintain a neutral or moderately downward path, domestic investment and production should show a pick up in the near term. If not, businesses will have very little incentive to invest in inventories that they believe will go unsold.

Contributing to the presently uncertain outlook, recently released economic indicators have been mixed. Auto sales in July were flat from June levels, pointing to moderating consumer spending in the third quarter. An early estimate for retail sales buttresses the auto sales statistics, showing little change in July from June levels, although, in fact, it was the first actual increase in four months for this measure. This reflects present consumer debt burden levels, coupled with the depletion of early summer tax refunds that were adding to personal income measures.

Business fixed-investment rebounded sharply in the second quarter, up at a 13.6 percent annual rate, but a third quarter rise of this magnitude seems unlikely. Capacity utilization rates, now hovering around 81 percent are not being pressed by manufacturing output. This is due to the fact that industrial production has remained essentially flat all year, now up less than 2 percent from a year ago. Although interest rates are relatively low, a diversion of orders for plant and equipment manufactured overseas has kept spending in this category from rising sharply higher. June orders for factory goods showed a healthy 1.9 percent monthly increase and comes on the heels of a strong 2.1 percent rise in May. Indeed, this may signal a modest turnaround in inventory investment during the third quarter relative to the second quarter. This series will bear watching in the next few months, however, before reaching a definite conclusion as to its actual trend.

In line with the upturn in economic growth from the first to the second quarter, interest rates have moved up somewhat as well. From mid-June to the first week in August, yields on short-term Treasury bills have risen about 40 basis points, with long-term securities up slightly more. The initial stimulus to this run-up was the flash GNP "estimate" in June of 3.1 percent and was shortly thereafter followed by a slight downturn. Interest rates in mid-to-late June then trended modestly upwards, based on the perception that the Fed has moderated its accommodative monetary policy and is awaiting further information on overall economic growth. The potential strength exhibited by final sales in the second quarter, coupled with a rise in factory orders for May and June plus the up tick in July retail sales, could be perceived as the result of nine months of high money stock growth. If so, then further declines in interest rates, while they could occur for technical reasons, would be minor and brief. Large or continuous movements in interest rates in either direction, however, are unlikely in the coming months unless there is a major external shock to the financial markets.

Because interest rate changes should be minor, investment in housing will continue to play an important role in the economy throughout the remainder of the year. While a good portion of housing-related demand has already been satisfied, the potential for upward movements in mortgage interest rates could induce undecided homebuyers to accelerate their purchase plans. Thus, sales of existing homes will remain near the 3 million mark during the year, with new homes sales hovering around 650,000. Fixed-rate mortgages may lose some market share to adjustables if rates advance, but total originations will remain firm.

Gregory Luetscher
Economist
August 15, 1985

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	4+ Units	Total	1-4 Units	5+ Units
1985												
FEB	95	68	27	1,647	1,231	416	101	63	38	1,624	1,041	583
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	118	57	1,933	1,268	665	160	105	55	1,704	1,066	638
MAY	170	118	52	1,681	1,148	533	171	109	62	1,778	1,064	714
JUN	162	110	52	1,694	1,131	563	156	100	56	1,712	1,091	621
JUL$_p$	160	113	47	1,654	1,133	521	158	104	54	1,696	1,093	603
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
7 MONTHS[8]												
1985	1,014	696	318				1,002	631	371			
1984	1,076	741	335				1,041	685	356			
1983	968	690	278				924	611	313			
1982	558	399	159				528	335	193			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
YEAR AND MONTH	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1985																
FEB	7	6	50	31	260	185	745	457	11	7	50	33	266	187	678	493
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	26	22	80	48	293	247	874	519	24	22	71	43	258	223	760	463
MAY	25	29	72	45	237	257	744	443	28	27	72	45	267	263	784	464
JUN	28	26	68	41	290	233	744	427	26	25	64	42	275	254	743	440
JUL$_p$	22	24	71	44	200	218	791	445	23	26	67	42	236	257	760	443
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
7 MONTHS[8]																
1985	133	132	471	278					147	132	446	277				
1984	106	140	556	275					110	124	516	291				
1983	92	118	537	221					89	101	511	223				
1982	55	76	319	108					53	63	292	119				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985														
JAN	190	48	356	6.8	$198,623	$82,457	$30,558	$85,608	1,031	598	433	119	84	35
FEB	193	55	360	6.5	197,111	80,919	29,401	86,791	1,001	585	416	121	79	42
MAR	263	67	357	6.4	196,047	81,549	29,286	85,212	1,020	602	418	125	83	42
APR	283	59	359	6.8	203,684	84,000	28,500	91,184	1,063	624	439	127	91	36
MAY	297	64	359	6.5	201,848	83,706	28,579	89,563	1,100	656	444	132	84	47
JUN$_p$	**297**	**58**	**359**	**6.6**	**200,342**	**82,910**	**30,196**	**87,236**	**1,105**	**659**	**446**	**157**	**106**	**51**
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
6 MONTHS														
1985	1,523	354										781	528	253
1984	1,494	351										767	520	247
1983	1,337	329										566	414	152
1982	966	195										455	311	144

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$20,860	$ 3,050	$ 9,654	$ 7,278	$ 878	$ 13,369	$ 2,400	$ 6,889	$ 4,023	$ 57
OCT	23,075	3,700	9,643	8,806	926	15,217	3,110	7,188	4,813	106
NOV	21,562	3,370	9,219	7,818	1,155	13,639	3,090	6,445	4,060	44
DEC	28,852	5,250	10,619	9,414	3,569	15,873	4,090	6,914	4,789	80
1985										
JAN	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
FEB$_p$	**n.a.**	**n.a.**	**7,941**	**7,351**	**1,396**	**n.a.**	**n.a.**	**5,618**	**3,555**	**54**
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	297,406	53,160	129,482	97,776	16,988	196,139	44,500	96,187	54,626	826
2 MONTH										
1985	n.a.	n.a.	15,863	14,675	2,330	n.a.	n.a.	11,340	7,483	102
1984	41,319	9,180	15,539	14,878	1,722	27,059	7,540	11,563	7,866	90
1983	32,151	9,160	9,845	11,358	1,788	22,264	7,860	7,567	6,739	98
1982	13,571	4,170	5,010	3,015	1,376	9,147	3,320	4,072	1,697	58

LOANS CLOSED (Cont'd.)

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	5+ UNITS Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	NONRESIDENTIAL Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$ 1,516	$ 70	$ 1,083	$ 339	$ 24	$ 5,975	$ 580	$ 1,682	$ 2,916	$ 797
OCT	1,341	0	880	373	88	6,517	590	1,575	3,620	732
NOV	1,664	0	1,098	455	111	6,259	280	1,676	3,303	1,000
DEC	2,488	80	1,488	488	432	10,491	1,080	2,217	4,137	3,057
1985										
JAN	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
FEB	n.a.	n.a.	923	396	133	n.a.	n.a.	1,400	3,400	1,209
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	22,125	1,980	13,160	5,519	1,466	79,142	6,680	20,135	37,631	14,696
2 MONTH										
1985	n.a.	n.a.	1,614	795	235	n.a.	n.a.	2,909	6,397	1,993
1984	3,753	890	1,677	991	195	10,507	750	2,299	6,021	1,437
1983	2,625	820	912	765	128	7,262	480	1,366	3,854	1,562
1982	1,031	210	414	327	80	3,563	810	524	991	1,238

YEAR AND MONTH	ISSUED DURING MONTH Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	OUTSTANDING Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$ 17,278	$ 2,910	$ 9,852	$ 3,021	$ 1,495	$90,837	$ 8,150	$51,666	$17,591	$13,430
OCT	19,331	3,910	10,578	3,349	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,830	3,430	11,549	3,317	2,534	92,434	8,190	51,651	19,389	15,204
DEC	22,227	5,480	10,872	3,810	2,065	91,093	8,700	50,483	17,905	14,005
JAN	n.a.	n.a.	9,207	3,548	1,562	n.a.	n.a.	49,556	16,711	14,123
FEB	n.a.	n.a.	10,564	3,624	2,602	n.a.	n.a.	50,998	16,994	15,285
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	264,193	50,100	146,184	47,065	20,844					
2 MONTH										
1985	n.a.	n.a.	19,971	7,172	4,164					
1984	37,648	8,640	19,650	6,405	2,953					
1983	32,580	13,470	12,826	4,014	2,270					
1982	14,717	6,020	5,105	2,874	718					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
FEB	138	59	13	66	73	4,787	10	579	13	867	50	3,341
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	188	67	19	102	110	7,103	35	2,007	14	944	61	4,152
MAY	189	70	19	100	98	6,429	20	1,185	13	868	65	4,376
JUN	n.a.	n.a.	19	93	n.a.	n.a.	n.a.	n.a.	14	961	63	4,251
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
6 MONTHS												
1985	821*	317*	98	518	465*	30,116*	112*	6,400*	78	5,189	352	23,739
1984	798*	198*	105	637	570*	36,353*	102*	5,459*	115	7,450	471	31,351
1983	755*	364*	142	366	400*	23,253*	125*	5,959*	118	7,476	236	14,895
1982	292*	115*	54	200	180*	9,902*	40*	1,656*	40	2,287	158	8,802

*Five-month totals

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
JAN	1,300	1,943	36,915	913	3,030	4,264	2,197	1,984	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	2,074	1,703	41,613	1,004	3,375	3,701	3,591	4,240	6,073	3,595
JUN	**1,593**	**1,904**	**42,755**	**1,519**	**4,101**	**5,172**	**4,106**	**3,281**	**3,324**	**3,609**
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
6 MONTHS										
1985	10,419	10,880	—	10,495	22,120	24,353	18,574	17,018	24,139	17,888
1984	10,117	9,185	—	8,556	10,564	11,108	8,271	7,308	19,004	15,264
1983	9,037	8,988	—	7,388	11,601	12,130	11,687	11,043	37,950	25,781
1982	9,511	4,537	—	3,876	15,085	15,098	9,277	9,240	11,386	6,756

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES FHA OPINION SURVEY FHA NEW[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA Mandatory Delivery Yields ARM (5 yr. Treas.)	FNMA Mandatory Delivery Yields Conv.	APARTMENTS[5]
1985								
FEB	13.27%	13.06%	13.06%	12.21%	12.39%	12.238%	12.675%	14.54%
MAR	13.43	13.26	13.28	11.92	12.19	12.860	13.070	14.60
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.569	14.16
MAY	12.28	12.49	12.50	12.06	12.09	12.038	12.281	13.34
JUN	11.89	12.06	12.06	11.75	11.76	11.125	11.600	13.38
JUL	**n.a.**	**n.a.**	**n.a.**	**11.38**	**11.48**	**11.025**	**11.706**	**13.22**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	FNMA[6]	FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
FEB	12.42%	—	—	12.76%	11.51%	8.39%	8.54%
MAR	12.77	—	—	13.17	11.86	8.90	8.90
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	11.89	—	—	12.25	10.85	7.65	7.83
JUN	11.20	11.20	11.23	11.62	10.16	7.09	7.35
JUL	**11.26**	**11.30**	**11.27**	**11.64**	**10.31**	**7.20**	**7.56**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
FEB	51	91	—	—
MAR	26	91	—	—
APR	22	101	—	—
MAY	3	104	—	—
JUN	25	104	104	107
JUL	**n.a.**	**95**	**99**	**96**

n a —Not available p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only

[6] Securities for 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
YEAR AND MONTH	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
YEAR AND MONTH	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	[illegible]	6,940	270	1,050
DEC	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

		1-4 Units				5+ Units			
YEAR AND MONTH	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4]			SERVICING VOLUME[1]				NOTES PAYABLE[1] (End of Month Balances)			
	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non.[3] res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	96	88	385,270	321,620	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH					END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,680	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

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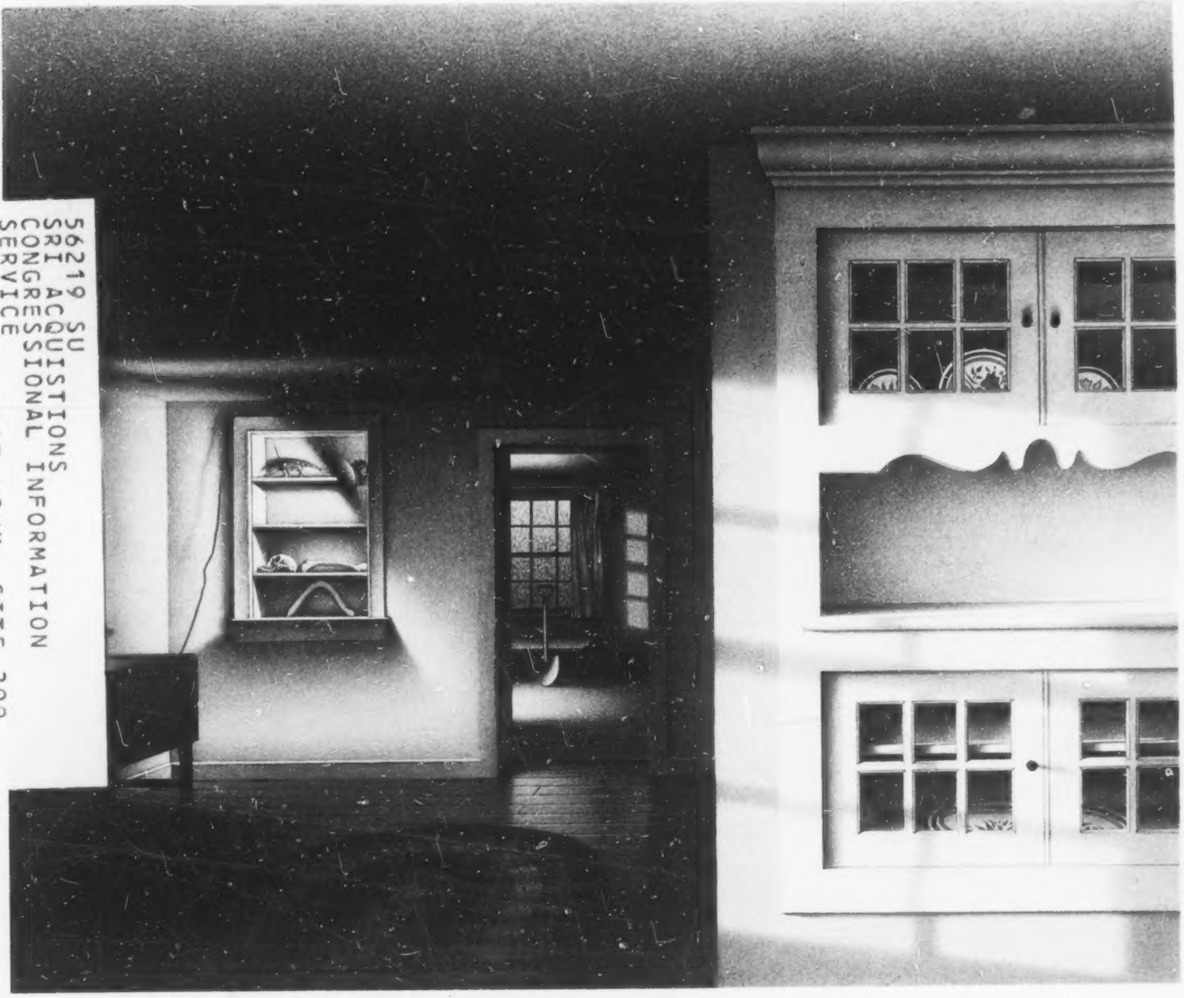
MORTGAGE BANKING

OCTOBER 1985

The Magazine of Real Estate Finance



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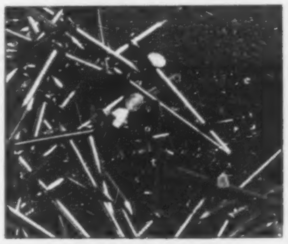
MORTGAGE BANKING

VOLUME 46 NO. 1
OCTOBER 1985

ARTICLES

PAGE 12
PRESERVING INVESTMENTS THROUGH CAREFUL DRAFTING
Bruce J. Bergman
This article explains how the terms of a mortgage document can play a significant role in the outcome of a foreclosure case. More time should be devoted to drafting mortgages carefully so that the language contained in the documents is clear and precise. In the end it will help to preserve investments and make foreclosure actions less traumatic.

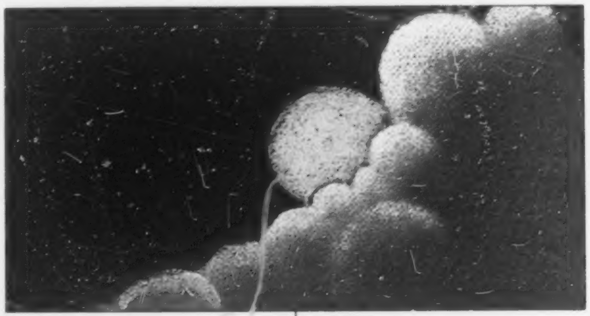
PAGE 22
EXPLOITING TRACT LENDING
Joseph Garrett
Because wholesale and retail lending have been the dominant sources of production in the real estate finance industry, builder business or tract lending has been treated as an orphan. The author cites many advantages lenders can consider when evaluating the builder business.



PAGE 37
COMMERCIAL MORTGAGES IN THE SECONDARY MARKET
Joseph Philip Forte
The continued expansion of the residential secondary mortgage market has market observers anticipating the development of a commercial secondary mortgage market. This article explores the many factors that would have a significant effect on the development of the secondary market in commercial real estate loans.

PAGE 48
ADDING VARIETY TO THE PRODUCT MIX
Jess Lederman
Sears' research has indicated that there are substantial advantages to investing in ARMs as securities rather than whole loans. This article details how the Sears ARM program developed and the progress it has made. Recently, Sears has enhanced its ARM program to include negotiated transactions.

PAGE 60
THE HUMAN TOUCH IN ORIGINATION: REAPING THE REWARDS
Barry J. Piesner
The ability to adjust to changes in personnel, product, consumer awareness, rates, the economy, and the value of the dollar, will determine the ultimate long-term success of a mortgage origination company. This author believes there is no reason why origination operations cannot be profitable.



PAGE 76
SHELTER '85
This show celebrates the creative side of the mortgage business and highlights the industry and the people who have earned this country the distinction of being the best-housed nation on Earth. The winning pieces of art from the show are presented here.

PAGE 88
TOWARD MORE AGGRESSIVE CONSUMER CONTACT
William H. Evans, Jr.
Customers buy only from loan representatives who are trained to recognize and act upon the opportunities that marketing campaigns may create. If loan originators cannot sell their products because they are improperly trained, sophisticated product planning or direct consumer contact are useless.

PAGE 102
WEATHERING THE EFFECTS: TAX REFORM AND RESIDENTIAL REAL ESTATE INVESTMENTS
Dr. Ronald E. Copley
This article examines the effects that President Reagan's tax reform proposal would have on the profitability of investments in moderately priced residential real estate.

PAGE 109
THE LAST WORD (IMPLICATIONS OF THE *AT-RISK* RULES)
Jerrol L. McLeod and Thomas M. Murray
Being at-risk for tax purposes is not necessarily the same thing as being at-risk economically. Developers can comply with the new at-risk rules without undue fear of substantial economic loss if they are honest and accurate in appraising projects and if they take some preventative measures.

DEPARTMENTS

ABOUT THE ISSUE 5
LETTERS 8
PEOPLE 116
BOOKS 122
SECONDARY MORTGAGE MARKETS 127
MORTGAGE MARKET TRENDS 129
AD INDEX 143

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985												
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	118	57	1,933	1,268	665	160	105	55	1,704	1,066	638
MAY	170	118	52	1,681	1,148	533	171	109	62	1,778	1,064	714
JUN	163	110	53	1,701	1,123	578	156	100	56	1,712	1,091	621
JUL	160	114	46	1,647	1,139	508	158	103	55	1,694	1,088	606
AUG$_P$	**161**	**110**	**51**	**1,749**	**1,178**	**571**	**157**	**101**	**56**	**1,754**	**1,112**	**642**
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
8 MONTHS												
1985	1,176	807	369				1,159	747	412			
1984	1,223	843	380				1,183	763	420			
1983	1,145	810	335				1,079	709	370			
1982	654	469	185				610	390	220			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1985																
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	26	22	80	48	293	247	874	519	24	22	71	43	258	223	760	463
MAY	25	29	72	45	237	257	744	443	28	27	72	45	267	263	784	464
JUN	27	27	67	42	284	239	737	441	26	25	64	42	275	254	743	440
JUL	22	23	70	44	201	218	782	446	23	26	66	43	238	256	754	446
AUG$_P$	**26**	**26**	**66**	**44**	**233**	**245**	**750**	**521**	**26**	**25**	**62**	**43**	**274**	**255**	**742**	**483**
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
8 MONTHS																
1985	158	159	536	323					173	156	508	322				
1984	127	164	623	310					129	144	581	330				
1983	114	143	629	259					107	122	590	261				
1982	68	92	369	124					63	75	335	136				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985														
JAN	190	48	356	6.8	$198,623	$82,457	$30,558	$85,608	1,031	598	433	119	84	35
FEB	193	55	360	6.5	197,111	80,919	29,401	86,791	1,001	585	416	121	79	42
MAR	263	67	357	6.3	196,047	81,549	29,286	85.212	1,020	602	418	125	83	42
APR	283	60	354	6.7	203,684	84,000	28,500	91,184	1,088	643	445	127	91	36
MAY	297	65	355	6.4	201,741	83,676	28,497	89,568	1,089	644	445	132	85	47
JUN	297	63	354	6.3	198,413	82,931	29,480	86,002	1,078	634	444	162	108	54
AUG$_p$	309	58	355	6.2	201,041	83,220	31.055	86,766	1,079	640	439	143	97	46
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
7 MONTHS														
1985	1,832	416										929	627	302
1984	1,761	403										902	612	290
1983	1,597	380										675	494	181
1982	1,149	226										530	366	164

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
OCT	23,075	3,700	9,643	8,806	926	15,217	3,110	7,188	4,813	106
NOV	21,562	3,370	9,219	7,818	1,155	13,639	3,090	6,445	4,060	44
DEC	28,852	5,250	10,619	9,414	3,569	15,873	4,090	6,914	4,789	80
1985										
JAN	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
FEB	n.a.	n.a.	7,941	7,351	1,396	n.a.	n.a.	5,618	3,555	54
MAR$_p$	n.a.	n.a.	10,681	8,350	2,042	n.a.	n.a.	7,887	4,502	91
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	297,406	53,160	129,482	97,776	16,988	196,139	44,500	96,187	54,626	826
3 MONTH										
1985	n.a.	n.a.	26,544	23,025	4,372	n.a.	n.a.	19,227	11,984	193
1984	65,350	13,870	25,697	22,966	2,817	42,702	11,310	18,977	12,240	193
1983	54,173	15,070	17,955	18,322	2,826	38,616	12,910	13,977	11,577	152
1982	25,465	4,920	8,170	10,204	2,171	16,199	3,630	6,698	5,774	97

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.
1984										
OCT	1,341	0	880	373	88	6,517	590	1,575	3,620	732
NOV	1,664	0	1,098	455	111	6,259	280	1,676	3,303	1,000
DEC	2,488	80	1,488	488	432	10,491	1,080	2,217	4,137	3,057
1985										
JAN	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
FEB	n.a.	n.a.	923	396	133	n.a.	n.a.	1,400	3,400	1,209
MAR$_P$	**n.a.**	**n.a.**	**1,162**	**511**	**177**	**n.a.**	**n.a.**	**1,632**	**3,337**	**1,774**
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	22,125	1,980	13,160	5,519	1,466	79,142	6,680	20,135	37,631	14,696
3 MONTH										
1985	n.a.	n.a.	2,776	1,307	412	n.a.	n.a.	4,541	9,734	3,767
1984	5,886	1,260	2,729	1,609	288	16,762	1,300	3,991	9,117	2,354
1983	3,739	890	1,589	1,050	210	11,818	1,270	2,389	5,695	2,464
1982	1,589	380	621	457	131	7,677	910	851	3,973	1,943

LOANS CLOSED (Cont'd.)

LONG-TERM COMMITMENT ACTIVITY By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks^2	Life Cos.
1984										
OCT	19,331	3,910	10,578	3,349	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,830	3,430	11,549	3,317	2,534	92,434	8,190	51,651	19,389	15,204
DEC	22,227	5,480	10,872	3,810	2,065	91,093	8,700	50,483	17,905	14,005
JAN	n.a.	n.a.	9,207	3,548	1,562	n.a.	n.a.	49,556	16,711	14,123
FEB	n.a.	n.a.	10,564	3,624	2,602	n.a.	n.a.	50,998	16,994	15,285
MAR$_P$	**n.a.**	**n.a.**	**14,217**	**7,831**	**2,770**	**n.a.**	**n.a.**	**53,175**	**21,748**	**14,496**
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	264,193	50,100	146,184	47,065	20,844					
3 MONTH										
1985	n.a.	n.a.	33,988	15,005	6,934					
1984	63,169	13,930	32,604	10,884	5,751					
1983	54,901	21,130	23,117	7,086	3,568					
1982	24,721	10,150	8,452	4,437	1,682					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA^3	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	188	67	19	102	110	7,103	35	2,007	14	944	61	4,152
MAY	189	70	19	100	98	6,429	20	1,185	13	868	65	4,376
JUN	192	80	19	93	112	7,330	36	2,118	14	961	62	4,251
JUL$_P$	**218**	**93**	**24**	**101**	**96**	**6,558**	**11**	**656**	**16**	**1,104**	**69**	**4,798**
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
7 MONTHS												
1985	1,231	490	122	619	675	44,004	159	9,174	94	6,293	422	28,537
1984	1,127	253	121	753	843	54,208	138	7,369	133	8,581	572	38,258
1983	1,144	528	170	446	640	37,739	209	10,359	138	8,700	293	18,680
1982	570	167	166	237	291	15,610	57	2,440	48	2,726	186	10,444

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	2,074	1,703	41,613	1,004	3,375	3,701	3,591	4,240	6,073	3,595
JUN	1,593	1,904	42,755	1,519	4,101	5,172	4,106	3,281	3,324	3,609
JUL	1,543	[illegible]	43,831	1,527	2,714	3,258	[illegible]	4,385	2,086	[illegible]
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
7 MONTHS										
1985	12,001	12,797	—	9,726	24,834	27,611	23,200	21,403	33,225	21,747
1984	12,093	10,411	—	6,949	15,650	15,036	9,559	8,887	22,256	17,589
1983	10,235	10,346	—	9,038	15,222	16,801	13,210	11,534	43,418	30,144
1982	11,529	5,890	—	5,733	17,285	17,300	11,511	11,445	13,502	7,767

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA NEW[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	APARTMENTS[5]: FNMA Mandatory Delivery Yields ARM (5 yr. Treas.)	FNMA Mandatory Delivery Yields Conv.	
1985								
MAR	13.43%	13.26%	13.28%	11.92%	12.19%	12.860%	13.070%	14.60%
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.669	14.16
MAY	12.28	12.49	12.50	12.06	12.09	12.038	12.281	13.34
JUN	11.89	12.06	12.06	11.75	11.76	11.125	11.600	13.38
JUL	12.12	12.09	12.10	11.38	11.48	11.000	11.569	13.22
AUG	n.a.	n.a.	n.a.	11.24	11.33	11.238	11.719	13.23

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
MAR	12.77%	—	—	13.17%	11.86%	8.90%	8.90%
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	11.89	—	—	12.25	10.85	7.65	7.83
JUN	11.20	11.20	11.23	11.62	10.16	7.09	7.35
JUL	11.26	11.30	11.27	11.64	10.31	7.20	7.56
AUG	11.39	11.38	11.42	11.77	10.33	7.32	7.72

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
MAR	26	91	—	—
APR	22	101	—	—
MAY	3	104	—	—
JUN	25	104	104	107
JUL	35	95	99	96
AUG	n.a.	106	106	109

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-[3] res.	SEASONALLY ADJUSTED Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH To Borrowers Total	To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors Total	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.	OUTSTANDING COMMITMENTS END OF MONTH To Borrowers 1-4 Units	To Borrowers 5+ Units	To Borrowers Non-[3] res.	From Investors 1-4 Units	From Investors 5+ Units	From Investors Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,460	4,080	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH	Total	1-4 Units Total	1-4 Units FHA	1-4 Units VA	1-4 Units Conv.	5+ Units Total	5+ Units FHA	5+ Units Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4]			SERVICING VOLUME[1]				NOTES PAYABLE[1] (End of Month Balances)			
	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non.[3] res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	36	88	385,270	321,620	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH					END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2.180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Unnits	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.